

NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND

Form 497

April 24, 2013

**IMPORTANT NOTICE TO SHAREHOLDERS OF**

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND (NMZ)**

**AND**

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND 2 (NMD)**

**(EACH, A FUND AND TOGETHER, THE FUNDS )**

**APRIL 24, 2013**

Although we recommend that you read the complete Joint Proxy Statement/Prospectus, for your convenience, we have provided a brief overview of the issues to be voted on.

**Q. Why am I receiving the enclosed Joint Proxy Statement/Prospectus?**

**A.** You are receiving the Joint Proxy Statement/Prospectus in connection with the annual shareholder meetings of the Funds. The following proposals will be considered:

the election of each Fund's Board of Trustees (each, a Board or the Board ) (the list of specific nominees is contained in the enclosed Joint Proxy Statement/Prospectus); and

the reorganization of Nuveen Municipal High Income Opportunity Fund 2 into Nuveen Municipal High Income Opportunity Fund.

***Proposals Regarding the Reorganization***

**Q. What actions has each Fund's Board approved?**

**A.** The Board of Nuveen's municipal closed-end funds has approved a series of mergers of municipal closed-end funds, including the reorganization of Nuveen Municipal High Income Opportunity Fund 2 (the Target Fund ) into Nuveen Municipal High Income Opportunity Fund (the Acquiring Fund ) (the Reorganization ).

**Q. Why has each Fund's Board recommended this proposal?**

**A.** Each Fund's Board has determined that the Reorganization would be in the best interests of its Fund. Each Fund's Board considered the Reorganization as part of a broad initiative to rationalize the product offerings of Nuveen funds and eliminate overlapping products. The Acquiring Fund and the Target Fund have similar investment objectives and policies and substantially similar portfolio compositions. The proposed Reorganization is intended to result in lower total expenses per common share (excluding costs of leverage) due to economies of scale resulting from the larger size of the combined fund and to enhance the secondary trading market for common shares of the Acquiring Fund as a result of the greater share volume of the combined fund.

**Q. What are the potential benefits of the Reorganization to common shareholders?**

**A.** The investment adviser to the Funds and/or each Fund's Board believe that the proposed Reorganization is expected to offer the following potential benefits to common shareholders of the Funds:

**Lower operating expenses** per common share (excluding costs of leverage) from greater economies of scale as the combined fund's size allows fixed operating expenses to be spread over a larger asset base. In addition, each Fund's total expense ratio, which includes, among other things, management fees, is expected to decrease as a result of the Reorganization.

**Improved secondary market trading** for common shares as the combined fund's greater share volume is expected to result in increased market liquidity, which may lead to narrower bid-ask spreads and smaller trade-to-trade price movements. The potential for higher common share net earnings and enhanced total returns over time, in each case from operating expense savings, may increase investor interest in the combined fund, which would result in increased market liquidity.

**Increased flexibility** in managing the structure and costs of leverage over time, for example, by enabling the larger combined fund to simultaneously employ, or modify allocations between, fixed rate and floating rate issues as issues mature and/or as the investment adviser's market outlook changes. In contrast, a smaller stand alone fund would likely be limited to employing one type of leverage and to smaller issues.

**Q. How will preferred shareholders be affected by the Reorganization?**

**A.** Each Fund has one series of Variable Rate MuniFund Term Preferred Shares ( VMTP Shares ) outstanding as of the date of the enclosed Joint Proxy Statement/Prospectus. The VMTP Shares of the Acquiring Fund will remain outstanding following the Reorganization. Upon the closing of the Reorganization, preferred shareholders of the Target Fund will receive on a one-for-one basis newly issued VMTP Shares of the Acquiring Fund with substantially identical terms, as of the closing of the Reorganization, as the VMTP Shares of the Target Fund exchanged therefor. Although the Acquiring Fund VMTP Shares to be issued to the Target Fund will consist of a separate series, such series will rank on a parity with other outstanding preferred shares of the Acquiring Fund. With respect to matters requiring all preferred shareholders to vote separately or common and preferred shareholders to vote together as a single class, following the Reorganization, preferred shareholders of the Acquiring Fund will hold a smaller percentage of the outstanding preferred shares of the combined fund.

**Q. Will the Reorganization impact Fund distributions to common shareholders?**

**A.** The Reorganization is not expected to adversely impact distributions to common shareholders and is expected to result in the same or higher distribution rates for common shareholders of each Fund (as common shareholders of the Acquiring Fund following the Reorganization) as a result of lower operating expenses per common share (excluding the costs of leverage).

**Q. Do the Funds have similar investment objectives and policies?**

**A.** Yes. The Acquiring Fund's primary investment objective is to provide high current income exempt from regular federal income tax. The Target Fund's primary investment objective is to

provide attractive income exempt from regular federal income tax. Each Fund's secondary objective is to seek total return. Under normal circumstances, each Fund expects to be fully invested (at least 95% of its assets, including assets attributable to preferred shares and the principal amount of any borrowings ( Managed Assets )) in such tax-exempt municipal securities. Up to 30% of each 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. Each Fund invests at least 50% of its Managed Assets in investment-grade-quality municipal securities. In addition, each Fund may invest up to 50% of its Managed Assets in municipal securities that, at the time of investment, are rated below investment grade. Each Fund is a diversified, closed-end management investment company and currently engages in leverage through the issuance of preferred shares and the use of inverse floating rate securities.

**Q. What specific proposals will I be asked to vote on in connection with the proposed Reorganization?**

- A.** Generally, shareholders of the Target Fund will be asked to vote on an Agreement and Plan of Reorganization with common shareholders and preferred shareholders voting as a single class and preferred shareholders voting separately. Shareholders of the Acquiring Fund will be asked to vote on the issuance of additional common shares in connection with the Reorganization, with common and preferred shareholders voting as a single class and common shares voting separately. In addition, preferred shareholders of the Acquiring Fund will be asked to vote on the Agreement and Plan of Reorganization.

**Q. Will shareholders of the Target Fund receive new shares in exchange for their current shares?**

- A.** Yes. Upon the closing of the Reorganization, the Target Fund will transfer substantially all of its assets to the Acquiring Fund in exchange for common and preferred shares of the Acquiring Fund, and the assumption by the Acquiring Fund of substantially all of the liabilities of the Target Fund. The Target Fund will then be liquidated, dissolved and terminated in accordance with applicable law.

Target Fund shareholders will become shareholders of the Acquiring Fund. Holders of common shares of the Target Fund will receive newly issued common shares of the Acquiring Fund, the aggregate net asset value of which will be equal to the aggregate net asset value of the common shares of the Target Fund held as of the close of trading on the business day immediately prior to the closing of the Reorganization (including for this purpose fractional Acquiring Fund common shares to which shareholders would be entitled). Fractional shares will be sold on the open market and shareholders will receive cash in lieu of such fractional shares. Holders of preferred shares of the Target Fund will receive on a one-for-one basis newly issued preferred shares of the Acquiring Fund having substantially identical terms, as of the closing of the Reorganization, as the Target Fund shares exchanged therefor.

Current shareholders of the Acquiring Fund will remain shareholders of the Acquiring Fund. With respect to matters requiring all common shareholders to vote as a single class or common and preferred shareholders to vote together, following the Reorganization, common shareholders of the Acquiring Fund will hold a smaller percentage of the outstanding common shares of the combined fund.

**Q. Does the Reorganization constitute a taxable event for the Target Fund's shareholders?**

**A.** No. The Reorganization is intended to qualify as a tax-free reorganization for federal income tax purposes. It is expected that you will recognize no gain or loss for federal income tax purposes as a direct result of the Reorganization, except that gain or loss may be recognized with respect to any cash received in lieu of fractional Acquiring Fund common shares. Prior to the closing of the Reorganization, the Target Fund expects to declare a distribution of all of its net investment income and net capital gains, if any. Such a distribution may be taxable to the Target Fund's shareholders for federal income tax purposes. To the extent that Target Fund portfolio securities are sold in connection with the Reorganization, the Target Fund may realize gains or losses, which may increase or decrease the net capital gain or net investment income to be distributed by the Target Fund. However, since the Target Fund's current portfolio composition is substantially similar to that of the Acquiring Fund, it is not currently expected that any significant portfolio sales will occur solely in connection with the Reorganization (less than 5% of the assets of the Target Fund).

**Q. What will happen if the required shareholder approvals in connection with the Reorganization are obtained for one Fund but not for the other Fund?**

**A.** Because the closing of the Reorganization is contingent on the Target Fund and the Acquiring Fund obtaining the requisite shareholder approvals and satisfying their other closing conditions, it is possible that the Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions, if the other Fund does not obtain its requisite shareholder approvals or satisfy its closing conditions. If all the shareholder approvals are not obtained, each Fund's Board may take such actions as it deems in the best interests of such Fund, including conducting additional solicitations with respect to the proposals or continuing to operate the Fund as a stand-alone fund.

**Q. Will I have to pay any fees or expenses in connection with the Reorganization?**

**A.** The costs of the Reorganization (whether or not consummated) will be allocated between the Funds ratably based on the relative expected benefits of the Reorganization comprised of forecasted cost savings (excluding the costs of leverage) and distribution increases, if any, to each Fund during the first year following the Reorganization. Common shareholders will indirectly bear the costs of the Reorganization. The costs of the Reorganization are estimated to be \$50,000 (0.01%) for the Acquiring Fund and \$620,000 (0.28%) for the Target Fund. Preferred shareholders will not bear any costs of the Reorganization. The Reorganization is expected to result in cost savings (excluding the costs of leverage) over time for the common shareholders of each Fund (as common shareholders of the Acquiring Fund following the Reorganization).

**Q. What is the timetable for the Reorganization?**

**A.** If the shareholder voting and other conditions to closing are satisfied (or waived), the Reorganization is expected to take effect on or about June 10, 2013 or as soon as practicable thereafter.

**Q. How does the Board recommend that I vote on the Reorganization?**

**A.** After careful consideration, the Board has determined that the Reorganization is in the best interests of each Fund and recommends that you vote FOR your Fund's proposal(s).

*General*

**Q. Who do I call if I have questions?**

**A.** If you need any assistance, or have any questions regarding the proposal or how to vote your shares, please call Computershare Fund Services, your proxy solicitor, at (866) 905-8160 weekdays during its business hours of 9:00 a.m. to 11:00 p.m. and Saturdays 12:00 p.m. to 6:00 p.m. Eastern time. Please have your proxy materials available when you call.

**Q. How do I vote my shares?**

**A.** You may vote by mail, by telephone or over the Internet:

*To vote by mail*, please mark, sign, date and mail the enclosed proxy card. No postage is required if mailed in the United States.

*To vote by telephone*, please call the toll-free number located on your proxy card and follow the recorded instructions, using your proxy card as a guide.

*To vote over the Internet*, go to the Internet address provided on your proxy card and follow the instructions, using your proxy card as a guide.

**Q. Will anyone contact me?**

**A.** You may receive a call from Computershare Fund Services, the proxy solicitor hired by your Fund, to verify that you received your proxy materials, to answer any questions you may have about the proposals and to encourage you to vote your proxy.

We recognize the inconvenience of the proxy solicitation process and would not impose on you if we did not believe that the matters being proposed were important. Once your vote has been registered with the proxy solicitor, your name will be removed from the solicitor's follow-up contact list.

**Your vote is very important. We encourage you as a shareholder to participate in your Fund's governance by returning your vote as soon as possible. If enough shareholders fail to cast their votes, your Fund may not be able to hold its meeting or the vote on each issue, and will be required to incur additional solicitation costs in order to obtain sufficient shareholder participation.**

APRIL 24, 2013

NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND (NMZ)

AND

NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND 2 (NMD)

(EACH, A FUND AND TOGETHER, THE FUNDS )

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 16, 2013

**To the Shareholders:**

Notice is hereby given that the Annual Meeting of Shareholders (the Annual Meeting ) of Nuveen Municipal High Income Opportunity Fund ( Municipal High Income or the Acquiring Fund ) and Nuveen Municipal High Income Opportunity Fund 2 ( Municipal High Income 2 or the Target Fund ) will be held in the offices of Nuveen Investments, Inc. ( Nuveen or Nuveen Investments ), 333 West Wacker Drive, Chicago, Illinois 60606, on Thursday, May 16, 2013, at 2:00 p.m., Central time, for the following purposes:

1. Election of Board Members.

*For each Fund:*

- (a) Three (3) Class I Board members are to be elected by holders of common shares and preferred shares, voting together as a single class. Board members Stockdale, Stone and Stringer are nominees for election by all shareholders.
- (b) Two (2) Board members are to be elected by holders of preferred shares only, voting separately. Board members Hunter and Schneider are nominees for election by holders of preferred shares.

2. Agreement and Plan of Reorganization. The shareholders of each Fund voting as set forth below, for an Agreement and Plan of Reorganization pursuant to which the Target Fund would: (i) transfer substantially all of its assets to the Acquiring Fund in exchange solely for newly issued common shares and preferred shares of the Acquiring Fund, and the Acquiring Fund's assumption of substantially all of the liabilities of the Target Fund; (ii) distribute such newly issued shares of the Acquiring Fund to the common shareholders and preferred shareholders of the Target Fund (with cash being issued in lieu of fractional common shares); and (iii) liquidate, dissolve and terminate in accordance with applicable law.

- (a) For the shareholders of the Target Fund, the common and preferred shareholders voting as a single class to approve the Agreement and Plan of Reorganization.
- (b) For the shareholders of the Acquiring Fund and the Target Fund, the preferred shareholders voting separately to approve the Agreement and Plan of Reorganization.

3. Approval of Issuance of Additional Common Shares by the Acquiring Fund.

*For Municipal High Income:*

- (a) The common and preferred shareholders voting as a single class to approve the issuance of additional common shares in connection with the reorganization pursuant to the Agreement and Plan of Reorganization.
  
- (b) The common shareholders voting separately to approve the issuance of additional common shares in connection with the reorganization pursuant to the Agreement and Plan of Reorganization.

4. To transact such other business as may properly come before the Annual Meeting.

Only shareholders of record as of the close of business on March 15, 2013 are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

**All shareholders are cordially invited to attend the Annual Meeting. In order to avoid delay and additional expense for the Funds, and to assure that your shares are represented, please vote as promptly as possible, whether or not you plan to attend the Annual Meeting. You may vote by mail, by telephone or over the Internet.**

*To vote by mail*, please mark, sign, date and mail the enclosed proxy card. No postage is required if mailed in the United States.

*To vote by telephone*, please call the toll-free number located on your proxy card and follow the recorded instructions, using your proxy card as a guide.

*To vote over the Internet*, go to the Internet address provided on your proxy card and follow the instructions, using your proxy card as a guide.

Kevin J. McCarthy

*Vice President and Secretary*

The Nuveen Funds

**NUVEEN FUNDS**

**333 WEST WACKER DRIVE**

**CHICAGO, ILLINOIS 60606**

**(800) 257-8787**

**JOINT PROXY STATEMENT/PROSPECTUS**

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND (NMZ)**

**AND**

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND 2 (NMD)**

**(EACH, A FUND AND TOGETHER, THE FUNDS )**

**APRIL 24, 2013**

This Joint Proxy Statement/Prospectus is being furnished to the common shareholders of Nuveen Municipal High Income Opportunity Fund ( Municipal High Income or the Acquiring Fund ) and Nuveen Municipal High Income Opportunity Fund 2 ( Municipal High Income 2 or the Target Fund ), each a closed-end management investment company, in connection with the solicitation of proxies by each Fund's Board of Trustees (each, a Board or the Board and each Trustee, a Board Member ) for use at the Annual Meeting of Shareholders of each Fund to be held in the offices of Nuveen Investments, Inc. ( Nuveen or Nuveen Investments ), 333 West Wacker Drive, Chicago, Illinois 60606, on Thursday, May 16, 2013, at 2:00 p.m., Central time, and at any and all adjournments or postponements thereof (each, an Annual Meeting and together, the Annual Meetings ) to consider the proposals listed below and discussed in greater detail elsewhere in this Joint Proxy Statement/Prospectus. Each Fund is organized as a Massachusetts business trust. The enclosed proxy card and this Joint Proxy Statement/Prospectus are first being sent to shareholders of the Funds on or about April 26, 2013. Shareholders of record of the Funds as of the close of business on March 15, 2013 are entitled to notice of, and to vote at, the Annual Meeting and any and all adjournments or postponements thereof.

This Joint Proxy Statement/Prospectus explains concisely what you should know before voting on the proposals described in this Joint Proxy Statement/Prospectus or investing in the Acquiring Fund. Please read it carefully and keep it for future reference.

**The securities offered by this Joint Proxy Statement/Prospectus have not been approved or disapproved by the Securities and Exchange Commission ( SEC ), nor has the SEC passed upon the accuracy or adequacy of this Joint Proxy Statement/Prospectus. Any representation to the contrary is a criminal offense.**

On the matters coming before each Annual Meeting as to which a choice has been specified by shareholders on the accompanying proxy card, the shares will be voted accordingly where such proxy card is properly executed, timely received and not properly revoked (pursuant to the instructions below). If a proxy is returned and no choice is specified, the shares will be voted **FOR** the proposals. Shareholders of a Fund who execute proxies may revoke them at any time before they are voted by filing with that Fund a written notice of revocation, by delivering a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. Merely attending the Annual Meeting, however, will not revoke any previously submitted proxy.



The Board of each Fund has determined that the use of this Joint Proxy Statement/Prospectus for the Annual Meetings is in the best interests of each Fund and its shareholders in light of the similar matters being considered and voted on by shareholders.

The following table indicates the proposals of each Fund for which the votes of common shareholders of each Fund are being solicited pursuant to this Joint Proxy Statement/Prospectus and which shareholders are solicited to vote with respect to each matter. Except as otherwise noted below, the common shareholders of a Fund vote together with the preferred shareholders as a single class.

|   | <b>Matter</b>  | <b>Common Shares</b> | <b>Preferred Shares</b> |
|---|--|----------------------|-------------------------|
| <b>For Shareholders of Municipal High Income,</b>   |  |                      |                         |
| 1(a)  | the common and preferred shareholders voting as a single class, to elect three (3) Class I Board Members,  | X                    | X*                      |
| 1(b)  | the preferred shareholders voting separately, to elect two (2) Board Members,  |                      | X*                      |
| 2(b)  | the preferred shareholders voting separately, to approve the Agreement and Plan of Reorganization,   |                      | X*                      |
| 3(a)  | the common and preferred shareholders voting as a single class to approve the issuance of additional common shares in connection with the reorganization pursuant to the Agreement and Plan of Reorganization, | X                    | X*                      |
| 3(b)  | the common shareholders voting separately to approve the issuance of additional common shares in connection with the reorganization pursuant to the Agreement and Plan of Reorganization.                      | X                    |                         |
| <b>For Shareholders of Municipal High Income 2,</b> |  |                      |                         |
| 1(a)  | the common and preferred shareholders voting as a single class, to elect three (3) Class I Board Members,  | X                    | X*                      |
| 1(b)  | the preferred shareholders voting separately, to elect two (2) Board Members,  |                      | X*                      |
| 2(a)  | the common and preferred shareholders voting as a single class, to approve the Agreement and Plan of Reorganization,   | X                    | X*                      |
| 2(b)  | the preferred shareholders voting separately, to approve the Agreement and Plan of Reorganization.   |                      | X*                      |

\* Each Fund is separately soliciting holders of its Variable Rate MuniFund Term Preferred Shares ( VMTP Shares ) through a separate proxy statement and not through this Joint Proxy Statement/Prospectus on each of the foregoing proposals that require preferred shareholders to vote together with common shareholders as a single class or preferred shareholders to vote separately as a single class.

A quorum of shareholders is required to take action at each Annual Meeting. A majority of the shares entitled to vote at each Annual Meeting, represented in person or by proxy, will constitute a quorum of shareholders at that Annual Meeting, except that for the election of two Board Member nominees to be elected by holders of preferred shares of each Fund, 33 1/3% of the preferred shares entitled to vote and represented in person or by proxy will constitute a quorum. Votes cast by proxy or in person at each Annual Meeting will be tabulated by the inspectors of election appointed for that Annual Meeting. The inspectors of election will determine whether or not a quorum is present at the

Annual Meeting. The inspectors of election will treat abstentions and broker non-votes (i.e., shares held by brokers or nominees, typically in street name, as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter) as present for purposes of determining a quorum.

Those persons who were shareholders of record at the close of business on March 15, 2013 will be entitled to one vote for each share held and, with respect to holders of common shares, a proportionate fractional vote for each fractional common share held.

As of March 18, 2013 the shares of the Funds issued and outstanding are as follows:

| Fund<br>(Ticker Symbol) | Common<br>Shares <sup>(1)</sup> | VMTP<br>Shares <sup>(2)</sup> |
|-------------------------|---------------------------------|-------------------------------|
| Acquiring Fund (NMZ)    | 31,336,775                      | 510                           |
| Target Fund (NMD)       | 18,899,837                      | 360                           |

- (1) The common shares of the Target Fund are listed on the New York Stock Exchange ( NYSE ). The common shares of the Acquiring Fund are listed on the NYSE MKT (formerly NYSE Amex). Upon the closing of the reorganization, it is expected that the common shares of the Acquiring Fund will continue to be listed on the NYSE MKT.
- (2) On December 21, 2012 each of the Acquiring Fund and the Target Fund terminated a senior committed secured 364-day revolving line of credit with its custodian bank ( borrowings ) and paid the full outstanding balance, including accrued interest and fees. In conjunction with terminating these borrowings, the Acquiring Fund and the Target Fund issued \$51 million and \$36 million (\$100,000 liquidation value per share) of VMTP Shares, respectively, as a new form of leverage. Proceeds from the issuance of VMTP Shares were used primarily to pay each Fund s outstanding balance on its borrowings as described above. VMTP Shares were offered only to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended.

The proposed reorganization seeks to combine two Funds that have similar investment objectives, policies and risks to achieve certain economies of scale and other operational efficiencies for the Funds. The Agreement and Plan of Reorganization by and between the Target Fund and the Acquiring Fund (the Agreement ) provides for: (i) the Acquiring Fund s acquisition of substantially all of the assets of the Target Fund in exchange for newly issued common shares of the Acquiring Fund, par value \$0.01 per share, and newly issued VMTP Shares of the Acquiring Fund, with a par value of \$0.01 per share and a liquidation preference of \$100,000 per share, and the Acquiring Fund s assumption of substantially all of the liabilities of the Target Fund, and (ii) the distribution of the newly issued Acquiring Fund common shares and Acquiring Fund VMTP Shares received by the Target Fund to its common and preferred shareholders, respectively, as part of the liquidation, dissolution and termination of the Target Fund in accordance with applicable law (the Reorganization ). The aggregate net asset value of Acquiring Fund common shares received by the Target Fund in the Reorganization will equal the aggregate net asset value of Target Fund common shares held by shareholders of the Target Fund immediately prior to the Reorganization. Prior to the closing of the Reorganization, the net asset value of the Target Fund and Acquiring Fund will be reduced by the costs of the Reorganization borne by such Fund. No fractional Acquiring Fund common shares will be issued to the Target Fund s common shareholders in connection with the Reorganization and, in lieu of such fractional shares, the Target Fund s common shareholders will receive cash in an amount equal to the value received for such shares in the open market, which may be higher or lower than net asset

value. Holders of VMTP Shares of the Target Fund will receive the same number of Acquiring Fund VMTP Shares having substantially identical terms as the outstanding VMTP Shares of the Target Fund held by such preferred shareholders immediately prior to the closing of the Reorganization. The aggregate liquidation preference of the Acquiring Fund VMTP Shares received in the Reorganization will equal the aggregate liquidation preference of the Target Fund VMTP Shares held immediately prior to the Reorganization.

The preferred shares of the Acquiring Fund to be issued in connection with the Reorganization will have equal priority with the Acquiring Fund's existing outstanding preferred shares as to the payment of dividends and as to the distribution of assets in the event of the Acquiring Fund's liquidation. In addition, the preferred shares of the Acquiring Fund, including preferred shares of the Acquiring Fund to be issued in connection with the Reorganization, will be senior in priority to the Acquiring Fund's common shares as to payment of dividends and as to the distribution of assets in the event of the Acquiring Fund's liquidation. The Acquiring Fund will continue to operate after the Reorganization as a registered closed-end management investment company with the investment objectives and policies described in this Joint Proxy Statement/Prospectus.

The Reorganization is required to be approved by the affirmative vote of the holders of a majority of the outstanding shares of the Target Fund's common shares and preferred shares, voting as a single class, and by the affirmative vote of a majority of the Target Fund's outstanding preferred shares, voting separately. The Reorganization also is required to be approved by the affirmative vote of the holders of a majority of the Acquiring Fund's outstanding preferred shares voting separately. In addition, common and preferred shareholders of the Acquiring Fund voting as a single class, and common shareholders voting separately, are being asked to approve the issuance of additional common shares of the Acquiring Fund in connection with the Reorganization.

In order for the Reorganization to occur, each Fund must obtain all requisite shareholder approvals as well as certain consents, confirmations and/or waivers from various third parties, including rating agencies with respect to outstanding preferred shares. Because the closing of the Reorganization is contingent on the Target Fund and the Acquiring Fund obtaining the requisite shareholder approvals and satisfying (or obtaining the waiver of) other closing conditions, it is possible that the Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions. If the requisite shareholder approvals are not obtained, each Fund's Board may take such actions as it deems in the best interest of such Fund, including conducting additional solicitations with respect to the proposals or continuing to operate the Fund as a stand-alone fund.

This Joint Proxy Statement/Prospectus concisely sets forth the information common shareholders of the Funds should know before voting on the proposals and constitutes an offering of common shares of the Acquiring Fund only. Shareholders should read it carefully and retain it for future reference.

The following documents have been filed with the SEC and are incorporated into this Joint Proxy Statement/Prospectus by reference:

- (i) the Statement of Additional Information relating to the proposed Reorganization, dated April 24, 2013 (the Reorganization SAI );

- (ii) the audited financial statements and related independent registered public accounting firm's report for the Acquiring Fund and the financial highlights for the Acquiring Fund contained in the Fund's Annual Report for the fiscal year ended October 31, 2012; and
- (iii) the audited financial statements and related independent registered public accounting firm's report for the Target Fund and the financial highlights for the Target Fund contained in the Fund's Annual Report for the fiscal year ended October 31, 2012.

No other parts of the Funds' Annual Reports are incorporated by reference herein.

Copies of the foregoing may be obtained without charge by calling (800) 257-8787 or writing the Funds at 333 West Wacker Drive, Chicago, Illinois 60606. If you wish to request a copy of the Reorganization SAI, please ask for the Reorganization SAI. In addition, the Acquiring Fund will furnish, without charge, a copy of its most recent Annual Report or Semi-Annual Report to a shareholder upon request. Any such request should be directed to the Acquiring Fund by calling (800) 257-8787 or by writing the Acquiring Fund at 333 West Wacker Drive, Chicago, Illinois 60606.

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the 1934 Act), and the Investment Company Act of 1940, as amended (the 1940 Act), and in accordance therewith file reports and other information with the SEC. Reports, proxy statements, registration statements and other information filed by the Funds, including the Registration Statement on Form N-14 relating to the common shares of the Acquiring Fund of which this Joint Proxy Statement/Prospectus is a part, may be inspected without charge and copied (for a duplication fee at prescribed rates) at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549 or at the SEC's New York Regional Office (3 World Financial Center, Suite 400, New York, New York 10281) or Chicago Regional Office (175 W. Jackson Boulevard, Suite 900, Chicago, Illinois 60604). You may call the SEC at (202) 551-8090 for information about the operation of the public reference room. You may obtain copies of this information, with payment of a duplication fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, D.C. 20549. You may also access reports and other information about the Funds on the EDGAR database on the SEC's Internet site at <http://www.sec.gov>.

The common shares of the Acquiring Fund are listed on the NYSE MKT, and the common shares of the Target Fund are listed on the NYSE. The VMTP Shares of each Fund are not listed on any exchange. Upon the closing of the Reorganization, it is expected that the common shares of the Acquiring Fund will continue to be listed on the NYSE MKT. Reports, proxy statements and other information concerning the Funds can be inspected at the offices of the NYSE and NYSE MKT, 11 Wall Street, New York, New York 10005.

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

**JOINT PROXY STATEMENT/PROSPECTUS**

**APRIL 24, 2013**

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND (NMZ)**

**AND**

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND 2 (NMD)**

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**PROPOSAL NO. 1 THE ELECTION OF BOARD MEMBERS**

**(COMMON SHAREHOLDERS OF EACH FUND)**

**Municipal High Income and Municipal High Income 2**

Pursuant to the organizational documents of each of Municipal High Income and Municipal High Income 2, the Board is divided into three classes, Class I, Class II and Class III, to be elected by the holders of the outstanding common shares and any outstanding preferred shares, voting together as a single class, to serve until the third succeeding annual meeting subsequent to their election or thereafter, in each case until their successors have been duly elected and qualified. Under normal circumstances, holders of preferred shares, voting separately as a single class, are entitled to elect two (2) Board Members. The Board Members elected by holders of preferred shares will be elected to serve until the next annual meeting or until their successors have been duly elected and qualified.

**For each Fund:**

- a. three (3) Board Members are to be elected by holders of common shares and preferred shares, voting together as a single class. Board Members Stockdale, Stone and Stringer have been designated as Class I Board Members and are nominees for election at the Annual Meeting for a term expiring at the 2016 annual meeting of shareholders or until their successors have been duly elected and qualified. Board Members Amboian, Bremner, Evans, Kundert and Toth are current and continuing Board Members. Board Members Amboian, Kundert and Toth have been designated as Class II Board Members for a term expiring at the annual meeting of shareholders in 2014 or until their successors have been duly elected and qualified. Board Members Bremner and Evans have been designated as Class III Board Members for a term expiring at the annual meeting of shareholders in 2015 or until their successors have been duly elected and qualified.
- b. two (2) Board Members are to be elected by holders of preferred shares, voting separately. Board Members Hunter and Schneider are nominees for election by holders of preferred shares for a term expiring at the next annual meeting or until their successors have been duly elected and qualified.

It is the intention of the persons named in the enclosed proxy to vote the shares represented thereby for the election of the nominees listed in the table below unless the proxy is marked otherwise. Each of the nominees has agreed to serve as a Board Member of each Fund if elected. However, should any nominee become unable or unwilling to accept nomination for election, the proxies will be voted for substitute nominees, if any, designated by that Fund's present Board.

For each Fund, Board Members Amboian, Kundert and Toth were last elected to the Fund's Board as Class II Board Members at the annual meeting of shareholders held on July 25, 2011. Board Members Bremner and Evans were last elected to the Fund's Board as Class III Board Members at the annual meeting of shareholders held on July 31, 2012. Board Members Stockdale and Stone, each of whom are nominees for election by holders of common and preferred shares, were last elected to each Fund's Board as Class I Board Members at the annual meeting of shareholders held on July 27, 2010.

Board Members Hunter and Schneider, who are the nominees for election by the preferred shareholders, were last elected to each Fund's Board at the annual meeting of shareholders held on July 27, 2010, and July 31, 2012, respectively, as Class I and Class III Board Members, respectively. Prior to December 21, 2012, each Fund had outstanding common shares only and thus, there was no separate slate of nominees for election by preferred shareholders. At a meeting of each Fund's Board

held on November 12-14, 2012, in connection with each Fund's anticipated issuance of preferred shares on December 21, 2012 and pursuant to each Fund's By-Laws, each Fund's Board appointed Board Members Hunter and Schneider as the Board Members to be elected by preferred shareholders voting separately, for an initial term expiring at the next succeeding annual meeting of shareholders (i.e., the May 16, 2013 Annual Meeting). Concurrently with their appointment as Board Members to be elected by preferred shareholders voting separately, the prior designation of Board Members Hunter and Schneider as Class I and Class III Board Members, respectively, was relinquished.

On January 1, 2011, Ms. Stringer, who is a nominee for election by holders of common and preferred shares, was appointed as a Board Member for each Fund and designated as a Class I Board Member with respect to each Fund.

Other than Mr. Amboian (for both Funds), each of the Board Member nominees is not an interested person as defined in the 1940 Act, of the Funds or of Nuveen Fund Advisors, LLC (Nuveen Fund Advisors or the Adviser), the investment adviser to each Fund, and have never been an employee or director of Nuveen Investments, the Adviser's parent company, or any affiliate. Accordingly, such Board Members are deemed Independent Board Members.

For each Fund, the affirmative vote of a plurality of the shares present and entitled to vote at the Annual Meeting will be required to elect the Board Members of that Fund. For purposes of determining the approval of the proposal to elect nominees for each Fund, abstentions and broker non-votes will have no effect on the election of Board Members.

**The Board unanimously recommends that shareholders vote FOR the election of the nominees named below.**

**Board Nominees/Board Members**

| <b>Name, Address and Birth Date</b>  | <b>Position(s) Held with Fund</b>   | <b>Term of Office and Length of Time Served<sup>(1)</sup></b>   | <b>Principal Occupation(s) During Past 5 Years</b>   | <b>Number of Portfolios in Fund Complex Overseen by Board Member</b> | <b>Other Directorships Held by Board Member During the Past Five Years</b> |
|--|-------------------------------------|---|--|--|--|
| <b>Nominees/Board Members who are not interested persons of the Funds</b>                                    |                                     |   |  |  |  |
| Robert P. Bremner<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(8/22/40) | Chairman of the Board, Board Member | Term: Class III Board Member until 2015<br><br>Length of Service: Since 1996;<br>Chairman of the Board since 2008;<br>Lead Independent Director (2005-2008) | Private Investor and Management Consultant; Treasurer and Director, Humanities Council of Washington D.C.; Board Member, Independent Directors Council affiliated with the Investment Company Institute. | 206  | None   |



| <b>Name, Address and Birth Date</b>   | <b>Position(s) Held with Fund</b> | <b>Term of Office and Length of Time Served<sup>(1)</sup></b>                         | <b>Principal Occupation(s) During Past 5 Years</b>   | <b>Number of Portfolios in Fund Complex Overseen by Board Member</b> | <b>Other Directorships Held by Board Member During the Past Five Years</b>                           |
|---|-----------------------------------|---|--|--|--|
| Jack B. Evans<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(10/22/48)   | Board Member                      | Term:<br>Class III<br>Board Member until 2015<br><br>Length of Service:<br>Since 1999 | President, The Hall-Perrine Foundation, a private philanthropic corporation (since 1996); Member, Board of Regents for the State of Iowa University System; Director, Source Media Group; Life Trustee of Coe College and Iowa College Foundation; formerly, Director, Federal Reserve Bank of Chicago; formerly, President and Chief Operating Officer, SCI Financial Group, Inc. (a regional financial services firm).   | 206  | Director and Chairman, United Fire Group, a publicly held company; formerly Director, Alliant Energy |
| William C. Hunter<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(3/6/48) | Board Member                      | Term: Annual<br><br>Length of Service:<br>Since 2004                                  | Dean Emeritus (since June 30, 2012), formerly, Dean (2006-2012), Tippie College of Business, University of Iowa; Director (since 2005) and President, (since July 2012) Beta Gamma Sigma, Inc., The International Business Honor Society; Director, Wellmark, Inc. (since 2009); formerly, Director (1997-2007), Credit Research Center at Georgetown University; formerly, Dean and Distinguished Professor of Finance, School of Business at the University of Connecticut (2003-2006); previously, Senior Vice President and Director of Research at the Federal Reserve Bank of Chicago (1995-2003). | 206  | Director (since 2004) of Xerox Corporation   |

| Name, Address and   | Position(s)<br>Held with<br>Fund | Term of<br>Office and<br>Length of<br>Time Served <sup>(1)</sup>                                       | Principal<br>Occupation(s) During<br>Past 5 Years  | Number of<br>Portfolios<br>in Fund<br>Complex<br>Overseen<br>by Board<br>Member | Other<br>Directorships<br>Held by<br>Board<br>Member<br>During the<br>Past Five<br>Years |
|---|----------------------------------|--|--|---|--|
| <p>David J. Kundert</p> <p>c/o Nuveen Investments, Inc.</p> <p>333 West Wacker Drive</p> <p>Chicago, IL 60606</p> <p>(10/28/42)</p> | <p>Board<br/>Member</p>          | <p>Term: Class II<br/>Board<br/>Member until<br/>2014</p> <p>Length of<br/>Service: Since<br/>2005</p> | <p>Director, Northwestern Mutual<br/>Wealth Management<br/>Company; retired (since 2004)<br/>as Chairman, JPMorgan<br/>Fleming Asset Management,<br/>President and CEO, Banc One<br/>Investment Advisors<br/>Corporation, and President,<br/>One Group Mutual Funds;<br/>prior thereto, Executive Vice<br/>President, Bank One<br/>Corporation and Chairman and<br/>CEO, Banc One Investment<br/>Management Group; Regent<br/>Emeritus, Member of<br/>Investment Committee, Luther<br/>College; Member of the<br/>Wisconsin Bar Association;<br/>Member of Board of Directors,<br/>Friends of Boerner Botanical<br/>Gardens; Member of Board of<br/>Directors and Chair of<br/>Investment Committee,<br/>Greater Milwaukee<br/>Foundation; Member of Board<br/>of Directors (Milwaukee),<br/>College Possible.</p> | <p>206</p>  | <p>None</p>  |

| <b>Name, Address and<br/>Birth Date</b>  | <b>Position(s)<br/>Held with<br/>Fund</b> | <b>Term of<br/>Office and<br/>Length of<br/>Time Served<sup>(1)</sup></b>                 | <b>Principal<br/>Occupation(s) During<br/>Past 5 Years</b>   | <b>Number of<br/>Portfolios<br/>in Fund<br/>Complex<br/>Overseen<br/>by Board<br/>Member</b> | <b>Other<br/>Directorships<br/>Held by<br/>Board<br/>Member<br/>During the<br/>Past Five<br/>Years</b> |
|--|---|---|--|--|--|
| William J. Schneider <sup>(2)</sup><br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(9/24/44) | Board<br>Member                           | Term: Annual<br><br>Length of<br>Service:<br>Since 1996                                   | Chairman of Miller-Valentine<br>Partners Ltd., a real estate<br>investment company;<br>Member, Mid-America Health<br>System Board; Member,<br>University of Dayton Business<br>School Advisory Council;<br>Board Member of Tech Town,<br>Inc., a not-for-profit<br>community development<br>company; Board Member of<br>WDPR Public Radio;<br>formerly, Senior Partner and<br>Chief Operating Officer<br>(retired, 2004) of<br>Miller-Valentine Group;<br>formerly, Member, Dayton<br>Philharmonic Orchestra<br>Association; formerly,<br>Director, Dayton<br>Development Coalition;<br>formerly, Member, Business<br>Advisory Council, Cleveland<br>Federal Reserve Bank. | 206  | None   |
| Judith M. Stockdale<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(12/29/47)                | Board<br>Member                           | Term: Class I<br>Board<br>Member until<br>2013<br><br>Length of<br>Service:<br>Since 1997 | Formerly, Executive Director,<br>Gaylord and Dorothy<br>Donnelley Foundation<br>(1994-2012); prior thereto,<br>Executive Director, Great<br>Lakes Protection Fund<br>(1990-1994).  | 206  | None   |
| Carole E. Stone<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(6/28/47)                     | Board<br>Member                           | Term: Class I<br>Board<br>Member until<br>2013<br><br>Length of<br>Service:<br>Since 2007 | Director, C2 Options<br>Exchange, Incorporated (since<br>2009); formerly,<br>Commissioner, New York<br>State Commission on Public<br>Authority Reform<br>(2005-2010); formerly, Chair,<br>New York Racing Association<br>Oversight Board (2005-2007).  | 206  | Director,<br><br>Chicago<br>Board<br>Options<br>Exchange<br>(since<br>2006)                            |

| Name, Address and  | Position(s)<br>Held with<br>Fund | Term of<br>Office and<br>Length of<br>Time Served <sup>(1)</sup>                                      | Principal<br>Occupation(s) During<br>Past 5 Years  | Number of<br>Portfolios<br>in Fund<br>Complex<br>Overseen<br>by Board<br>Member | Other<br>Directorships<br>Held by<br>Board<br>Member<br>During the<br>Past Five<br>Years   |
|--|----------------------------------|---|--|---|--|
| <p>Virginia L. Stringer</p> <p>c/o Nuveen Investments, Inc.</p> <p>333 West Wacker Drive</p> <p>Chicago, IL 60606</p> <p>(8/16/44)</p> | <p>Board<br/>Member</p>          | <p>Term: Class I<br/>Board<br/>Member until<br/>2013</p> <p>Length of<br/>Service: Since<br/>2011</p> | <p>Board Member, Mutual Fund<br/>Directors Forum; former<br/>Member, Governing Board,<br/>Investment Company<br/>Institute s Independent<br/>Directors Council; former<br/>Owner and President,<br/>Strategic Management<br/>Resources, Inc. a management<br/>consulting firm; previously,<br/>held several executive<br/>positions in general<br/>management, marketing and<br/>human resources at IBM and<br/>The Pillsbury Company.</p> | <p>206</p>  | <p>Previously,<br/>Independent<br/>Director<br/>(1987-<br/>2010) and<br/>Chair<br/>(1997-<br/>2010), First<br/>American<br/>Fund<br/>Complex</p> |

| <b>Name, Address and<br/>Birth Date</b>   | <b>Position(s)<br/>Held with<br/>Fund</b> | <b>Term of<br/>Office and<br/>Length of<br/>Time Served<sup>(1)</sup></b>                  | <b>Principal<br/>Occupation(s) During<br/>Past 5 Years</b>  | <b>Number of<br/>Portfolios<br/>in Fund<br/>Complex<br/>Overseen<br/>by Board<br/>Member</b> | <b>Other<br/>Directorships<br/>Held by<br/>Board<br/>Member<br/>During the<br/>Past Five<br/>Years</b> |
|---|---|--|---|--|--|
| Terence J. Toth <sup>(3)</sup><br><br>c/o Nuveen Investments, Inc.<br><br>333 West Wacker Drive<br><br>Chicago, IL 60606<br><br>(9/29/59) | Board<br>Member                           | Term: Class II<br>Board<br>Member until<br>2014<br><br>Length of<br>Service: Since<br>2008 | Managing Partner, Promus<br>Capital (since 2008); Director,<br>Fulcrum IT Service LLC<br>(since 2010), Quality Control<br>Corporation (since 2012) and<br>LogicMark LLC (since 2012);<br>formerly, Director, Legal &<br>General Investment<br>Management America, Inc.<br>(2008-2013); formerly, CEO<br>and President, Northern Trust<br>Global Investments<br>(2004-2007); Executive Vice<br>President, Quantitative<br>Management & Securities<br>Lending (2000-2004); prior<br>thereto, various positions with<br>Northern Trust Company<br>(since 1994); Member,<br>Chicago Fellowship Board<br>(since 2005), Catalyst Schools<br>of Chicago Board (since 2008)<br>and Mather Foundation Board<br>(since 2012), and a member of<br>its investment committee;<br>formerly, Member, Northern<br>Trust Mutual Funds Board<br>(2005-2007), Northern Trust<br>Global Investments Board<br>(2004-2007), Northern Trust<br>Japan Board (2004-2007),<br>Northern Trust Securities Inc.<br>Board (2003-2007) and<br>Northern Trust Hong Kong<br>Board (1997-2004). | 206  | None   |

| <b>Name, Address and Birth Date</b>  | <b>Position(s) Held with Fund</b> | <b>Term of Office and Length of Time Served<sup>(1)</sup> of the Funds</b>                    | <b>Principal Occupation(s) During Past 5 Years</b>   | <b>Number of Portfolios in Fund Complex Overseen by Board Member</b> | <b>Other Directorships Held by Board Member During the Past Five Years</b> |
|--|-----------------------------------|---|--|--|--|
| <b>Nominee/Board Member who is an interested person</b><br>John P. Amboian <sup>(4)</sup><br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(6/14/61) | Board Member                      | Term:<br>Class II<br>Board<br>Member until<br>2014<br><br>Length of<br>Service:<br>Since 2008 | Chief Executive Officer and<br>Chairman (since 2007) and<br>Director (since 1999) of<br>Nuveen Investments, Inc.;<br>formerly, President<br>(1999-2007), Chief Executive<br>Officer (since 2007) of<br>Nuveen Investments Advisors,<br>Inc.; Director (since 1998),<br>formerly, Chief Executive<br>Officer (2007-2010) of<br>Nuveen Fund Advisors, LLC. | 206  | None   |

- (1) Length of Time Served indicates the year in which the individual became a Board Member of a fund in the Nuveen fund complex.
- (2) Mr. Schneider is one of several owners and managing members in two limited liability companies and a general partner and one member of the governing body of a general partnership, each engaged in real estate ownership activities. In connection with their ordinary course of investment activities, court appointed receivers have been named for certain individual properties owned by such entities. The individual properties for which a receiver has been appointed represent an immaterial portion of the portfolio assets owned by these entities.
- (3) Mr. Toth serves as a director on the Board of Directors of the Mather Foundation (the Foundation ) and is a member of its investment committee. The Foundation is the parent of the Mather LifeWays organization, a non-profit charitable organization. Prior to Mr. Toth joining the Board of the Foundation, the Foundation selected Gresham Investment Management ( Gresham ), an affiliate of Nuveen Fund Advisors, LLC, to manage a portion of the Foundation s investment portfolio, and pursuant to this selection, the Foundation has invested that portion of its investment portfolio in a private commodity pool managed by Gresham.
- (4) Interested person as defined in the 1940 Act, by reason of his positions with Nuveen Investments LLC and certain of its subsidiaries. The dollar range of equity securities beneficially owned by each Board Member in each Fund and all Nuveen funds overseen by the Board Member as of December 31, 2012 is set forth in Appendix C. The number of shares of each Fund beneficially owned by each Board Member and by the Board Members and officers of the Funds as a group as of December 31, 2012 is set forth in Appendix C. As of December 31, 2012, Board Members and executive officers as a group beneficially owned approximately 1,700,000 shares of all funds managed by the Adviser (including shares held by the Board Members through the Deferred Compensation Plan for Independent Board Members and by executive officers in Nuveen s 401(k)/profit sharing plan), and each Board Member s individual beneficial shareholdings of each Fund constituted less than 1% of the outstanding shares of each Fund. As of December 31, 2012, the Board Members and executive officers as a group beneficially owned

less than 1% of the outstanding shares of each Fund. Information regarding beneficial owners of more than 5% of any class of shares of any Fund is provided under General Information Shareholders of the Acquiring Fund and the Target Funds .

### Compensation

Effective January 1, 2013, Independent Board Members receive a \$140,000 annual retainer plus: (a) a fee of \$4,500 per day for attendance in person or by telephone at regularly scheduled meetings of the Board; (b) a fee of \$3,000 per meeting for attendance in person or by telephone at special, non-regularly scheduled meetings of the Board where in-person attendance is required and \$2,000 per meeting for attendance by telephone or in person at such meetings where in-person attendance is not required; (c) a fee of \$2,500 per meeting for attendance in person or by telephone at Audit Committee meetings where in-person attendance is required and \$2,000 per meeting for attendance by telephone or in person at such meetings where in-person attendance is not required; (d) a fee of \$2,500 per meeting for attendance in person or by telephone at Compliance, Risk Management and Regulatory Oversight Committee meetings where in-person attendance is required and \$2,000 per meeting for attendance by telephone or in person at such meetings where in-person attendance is not required; (e) a fee of \$1,000 per meeting for attendance in person or by telephone at Dividend Committee meetings; (f) a fee of \$500 per meeting for attendance in person or by telephone at all other committee meetings (\$1,000 for shareholder meetings) where in-person attendance is required and \$250 per meeting for attendance by telephone or in person at such committee meetings (excluding shareholder meetings) where in-person attendance is not required, and \$100 per meeting when the Executive Committee acts as pricing committee for IPOs, plus, in each case, expenses incurred in attending such meetings, provided that no fees are received for meetings held on days on which regularly scheduled Board meetings are held; and (g) a fee of \$2,500 per meeting for attendance in person or by telephone at Closed-End Funds Committee meetings where in-person attendance is required and \$2,000 per meeting for attendance by telephone or in person at such meetings where in-person attendance is not required; provided that no fees are received for meetings held on days on which regularly scheduled Board meetings are held. In addition to the payments described above, the Chairman of the Board receives \$75,000, the chairpersons of the Audit Committee, the Dividend Committee, the Compliance, Risk Management and Regulatory Oversight Committee and the Closed-End Funds Committee receive \$12,500 each and the chairperson of the Nominating and Governance Committee receives \$5,000 as additional retainers. Independent Board Members also receive a fee of \$3,000 per day for site visits to entities that provide services to the Nuveen funds on days on which no Board meeting is held. When ad hoc committees are organized, the Nominating and Governance Committee will at the time of formation determine compensation to be paid to the members of such committee; however, in general, such fees will be \$1,000 per meeting for attendance in person or by telephone at ad hoc committee meetings where in-person attendance is required and \$500 per meeting for attendance by telephone or in person at such meetings where in-person attendance is not required. The annual retainer, fees and expenses are allocated among the Nuveen funds on the basis of relative net assets, although management may, in its discretion, establish a minimum amount to be allocated to each fund.

The Funds do not have retirement or pension plans. Certain Nuveen funds (the Participating Funds ) participate in a deferred compensation plan (the Deferred Compensation Plan ) that permits an Independent Board Member to elect to defer receipt of all or a portion of his or her compensation as an Independent Board Member. The deferred compensation of a participating Independent Board Member is credited to a book reserve account of the Participating Fund when the compensation would otherwise have been paid to such Independent Board Member. The value of the Independent Board

Member's deferral account at any time is equal to the value that the account would have had if contributions to the account had been invested and reinvested in shares of one or more of the eligible Nuveen funds. At the time for commencing distributions from an Independent Board Member's deferral account, the Independent Board Member may elect to receive distributions in a lump sum or over a period of five years. The Participating Fund will not be liable for any other fund's obligations to make distributions under the Deferred Compensation Plan.

The Funds have no employees. The officers of the Funds and the Board Member of each Fund who is not an Independent Board Member serve without any compensation from the Funds.

The table below shows, for each Independent Board Member, the aggregate compensation paid by each Fund to each Board Member nominee for its last fiscal year:

**Aggregate Compensation from the Funds<sup>(1)</sup>**

| Fund   | Robert P. Bremner | Jack B. Evans | William C. Hunter | David J. Kundert | William J. Schneider | Judith M. Stockdale | Carole E. Stone | Virginia L. Stringer | Terence J. Toth |
|--|-------------------|---------------|-------------------|------------------|----------------------|---------------------|-----------------|----------------------|-----------------|
| Municipal High Income  | \$ 1,433          | \$ 1,072      | \$ 994            | \$ 1,085         | \$ 1,193             | \$ 1,079            | \$ 1,090        | \$ 982               | \$ 1,163        |
| Municipal High Income 2  | 889               | 662           | 610               | 667              | 735                  | 662                 | 677             | 610                  | 723             |
| Total Compensation from Nuveen Funds Paid to Board Members/Nominees <sup>(2)</sup> | \$ 343,204        | \$ 262,670    | \$ 240,509        | \$ 267,712       | \$ 284,299           | \$ 261,411          | \$ 263,100      | \$ 248,600           | \$ 298,475      |

- (1) Includes deferred fees. Pursuant to a deferred compensation agreement with certain of the Funds, deferred amounts are treated as though an equivalent dollar amount has been invested in shares of one or more Participating Funds. Total deferred fees for the Funds (including the return from the assumed investment in the Participating Funds) payable are:

| Fund                    | Robert P. Bremner | Jack B. Evans | William C. Hunter | David J. Kundert | William J. Schneider | Judith M. Stockdale | Carole E. Stone | Virginia L. Stringer | Terence J. Toth |
|-------------------------|-------------------|---------------|-------------------|------------------|----------------------|---------------------|-----------------|----------------------|-----------------|
| Municipal High Income   | \$ 217            | \$ 272        | \$ 266            | \$ 1,085         | \$ 915               | \$ 679              | \$              | \$                   | \$              |
| Municipal High Income 2 | 32                | 39            |                   | 169              | 175                  | 102                 |                 |                      |                 |

- (2) Based on the total compensation paid, including deferred fees (including the return from the assumed investment in the eligible Nuveen funds), to the Board Members for the calendar year ended December 31, 2012 for services to the Nuveen open-end and closed-end funds advised by the Adviser.

**Board Leadership Structure and Risk Oversight**

The Board of each Fund oversees the operations and management of the Fund, including the duties performed for the Funds by the Adviser. The Board has adopted a unitary board structure. A unitary board consists of one group of directors who serve on the board of every fund in the complex. In adopting a unitary board structure, the Board Members seek to provide effective governance through establishing a board, the overall composition of which will, as a body, possess the appropriate skills, independence and experience to oversee the Funds' business. With this overall framework in mind, when the Board, through its Nominating and Governance Committee discussed below, seeks nominees for the Board, the Board Members consider, not only the candidate's particular background, skills and experience, among other things, but also whether such background, skills and experience enhance the Board's diversity and at the same time complement the Board given its current composition and the mix of skills and experiences of the incumbent Board Members. The Nominating and Governance Committee believes that the Board generally benefits from diversity of background, experience and views among its members, and considers this a factor in evaluating the composition of the Board, but has not adopted any specific policy on diversity or any particular definition of diversity.



The Board believes the unitary board structure enhances good and effective governance, particularly given the nature of the structure of the investment company complex. Funds in the same complex generally are served by the same service providers and personnel and are governed by the same regulatory scheme which raises common issues that must be addressed by the Board Members across the fund complex (such as compliance, valuation, liquidity, brokerage, trade allocation or risk management). The Board believes it is more efficient to have a single board review and oversee common policies and procedures which increases the Board's knowledge and expertise with respect to the many aspects of fund operations that are complex-wide in nature. The unitary structure also enhances the Board's influence and oversight over the Adviser and other service providers.

In an effort to enhance the independence of the Board, the Board also has a Chairman that is an Independent Board Member. The Board recognizes that a chairman can perform an important role in setting the agenda for the Board, establishing the boardroom culture, establishing a point person on behalf of the Board for Fund management, and reinforcing the Board's focus on the long-term interests of shareholders. The Board recognizes that a chairman may be able to better perform these functions without any conflicts of interests arising from a position with Fund management. Accordingly, the Board Members have elected Robert P. Bremner as the independent Chairman of the Board through June 30, 2013 and William J. Schneider to serve as the independent Chairman of the Board effective July 1, 2013. Specific responsibilities of the Chairman include: (i) presiding at all meetings of the Board and of the shareholders; (ii) seeing that all orders and resolutions of the Board Members are carried into effect; and (iii) maintaining records of and, whenever necessary, certifying all proceedings of the Board Members and the shareholders.

Although the Board has direct responsibility over various matters (such as advisory contracts, underwriting contracts and Fund performance), the Board also exercises certain of its oversight responsibilities through several committees that it has established and which report back to the full Board. The Board believes that a committee structure is an effective means to permit Board Members to focus on particular operations or issues affecting the Funds, including risk oversight. More specifically, with respect to risk oversight, the Board has delegated matters relating to valuation and compliance to certain committees (as summarized below) as well as certain aspects of investment risk. In addition, the Board believes that the periodic rotation of Board Members among the different committees allows the Board Members to gain additional and different perspectives of a Fund's operations. The Board has established six standing committees: the Executive Committee, the Dividend Committee, the Audit Committee, the Compliance, Risk Management and Regulatory Oversight Committee, the Nominating and Governance Committee and the Closed-End Funds Committee. The Board may also from time to time create ad hoc committees to focus on particular issues as the need arises. The membership and functions of the standing committees are summarized below.

The Executive Committee, which meets between regular meetings of the Board, is authorized to exercise all of the powers of the Board. The members of the Executive Committee are Robert P. Bremner, Chair, Judith M. Stockdale and John P. Amboian. The number of Executive Committee meetings of each Fund held during its last fiscal year is shown in Appendix D.

The Dividend Committee is authorized to declare distributions on each Fund's shares including, but not limited to, regular and special dividends, capital gains and ordinary income distributions. The members of the Dividend Committee are Jack B. Evans, Chair, Judith M. Stockdale and Terence J. Toth. The number of Dividend Committee meetings of each Fund held during its last fiscal year is shown in Appendix D.

The Closed-End Funds Committee is responsible for assisting the Board in the oversight and monitoring of the Nuveen Funds that are registered as closed-end management investment companies ( Closed-End Funds ). The committee may review and evaluate matters related to the formation and the initial presentation to the Board of any new Closed-End Fund and may review and evaluate any matters relating to any existing Closed-End Fund. The committee operates under a written charter adopted and approved by the Board. The members of the Closed-End Funds Committee are Jack B. Evans, William C. Hunter, William J. Schneider, Chair, and Carole E. Stone. The number of Closed-End Funds Committee meetings of each Fund held during its last fiscal year is shown in Appendix D.

The Board has an Audit Committee, in accordance with Section 3(a)(58)(A) of the 1934 Act, that is composed of Independent Board Members who are also independent as that term is defined in the listing standards pertaining to closed-end funds of the NYSE or NYSE MKT, as applicable. The Audit Committee assists the Board in: the oversight and monitoring of the accounting and reporting policies, processes and practices of the Funds, and the audits of the financial statements of the Funds; the quality and integrity of the financial statements of the Funds; the Funds compliance with legal and regulatory requirements relating to the Funds financial statements; the independent auditors qualifications, performance and independence; and the pricing procedures of the Funds and the internal valuation group of Nuveen. It is the responsibility of the Audit Committee to select, evaluate and replace any independent auditors (subject only to Board and, if applicable, shareholder ratification) and to determine their compensation. The Audit Committee is also responsible for, among other things, overseeing the valuation of securities comprising the Funds portfolios. Subject to the Board s general supervision of such actions, the Audit Committee addresses any valuation issues, oversees the Funds pricing procedures and actions taken by Nuveen s internal valuation group which provides regular reports to the committee, reviews any issues relating to the valuation of the Funds securities brought to its attention, and considers the risks to the Funds in assessing the possible resolutions of these matters. The Audit Committee may also consider any financial risk exposures for the Funds in conjunction with performing its functions.

To fulfill its oversight duties, the Audit Committee receives annual and semi-annual reports and has regular meetings with the external auditors for the Funds and the internal audit group at Nuveen. The Audit Committee also may review, in a general manner, the processes the Board or other Board committees have in place with respect to risk assessment and risk management as well as compliance with legal and regulatory matters relating to the Funds financial statements. The Audit Committee operates under a written Audit Committee Charter (the Charter ) adopted and approved by the Board, which Charter conforms to the listing standards of the NYSE or NYSE MKT, as applicable. Members of the Audit Committee are independent (as set forth in the Charter) and free of any relationship that, in the opinion of the Board Members, would interfere with their exercise of independent judgment as an Audit Committee member. The members of the Audit Committee are Robert P. Bremner, David J. Kundert, Chair, William J. Schneider, Carole E. Stone and Terence J. Toth, each of whom is an Independent Board Member of the Funds. A copy of the Charter is attached as Appendix F. The number of Audit Committee meetings of each Fund held during its last fiscal year is shown in Appendix D.

The Compliance, Risk Management and Regulatory Oversight Committee (the Compliance Committee ) is responsible for the oversight of compliance issues, risk management and other regulatory matters affecting the Funds that are not otherwise under or within the jurisdiction of the other committees. The Board has adopted and periodically reviews policies and procedures designed to address the Funds compliance and risk matters. As part of its duties, the Compliance Committee: reviews the policies and procedures relating to compliance matters and recommends modifications thereto as necessary or appropriate to the full Board; develops new policies and procedures as new

regulatory matters affecting the Funds arise from time to time; evaluates or considers any comments or reports from examinations from regulatory authorities and responses thereto; and performs any special reviews, investigations or other oversight responsibilities relating to risk management, compliance and/or regulatory matters as requested by the Board.

In addition, the Compliance Committee is responsible for risk oversight, including, but not limited to, the oversight of risks related to investments and operations. Such risks include, among other things, exposures to: particular issuers, market sectors, or types of securities; risks related to product structure elements, such as leverage; and techniques that may be used to address those risks, such as hedging and swaps. In assessing issues brought to the Compliance Committee's attention or in reviewing a particular policy, procedure, investment technique or strategy, the Compliance Committee evaluates the risks to the Funds in adopting a particular approach or resolution compared to the anticipated benefits to the Funds and their shareholders. In fulfilling its obligations, the Compliance Committee meets on a quarterly basis, and at least once a year in person. The Compliance Committee receives written and oral reports from the Funds' Chief Compliance Officer ( CCO ) and meets privately with the CCO at each of its quarterly meetings. The CCO also provides an annual report to the full Board regarding the operations of the Funds' and other service providers' compliance programs as well as any recommendations for modifications thereto. The Compliance Committee also receives reports from the investment services group of Nuveen regarding various investment risks. Notwithstanding the foregoing, the full Board also participates in discussions with management regarding certain matters relating to investment risk, such as the use of leverage and hedging. The investment services group therefore also reports to the full Board at its quarterly meetings regarding, among other things, Fund performance and the various drivers of such performance. Accordingly, the Board directly and/or in conjunction with the Compliance Committee oversees matters relating to investment risks. Matters not addressed at the committee level are addressed directly by the full Board. The Compliance Committee operates under a written charter adopted and approved by the Board. The members of the Compliance Committee are Jack B. Evans, William C. Hunter, William J. Schneider, Judith M. Stockdale, Chair, and Virginia L. Stringer. The number of Compliance Committee meetings of each Fund held during its last fiscal year is shown in Appendix D.

The Nominating and Governance Committee is responsible for seeking, identifying and recommending to the Board qualified candidates for election or appointment to the Board. In addition, the Nominating and Governance Committee oversees matters of corporate governance, including the evaluation of Board performance and processes, the assignment and rotation of committee members, and the establishment of corporate governance guidelines and procedures, to the extent necessary or desirable, and matters related thereto. Although the unitary and committee structure has been developed over the years and the Nominating and Governance Committee believes the structure has provided efficient and effective governance, the committee recognizes that, as demands on the Board evolve over time (such as through an increase in the number of funds overseen or an increase in the complexity of the issues raised), the committee must continue to evaluate the Board and committee structures and their processes and modify the foregoing as may be necessary or appropriate to continue to provide effective governance. Accordingly, the Nominating and Governance Committee has a separate meeting each year to, among other things, review the Board and committee structures, their performance and functions, and recommend any modifications thereto or alternative structures or processes that would enhance the Board's governance over the Funds' business.

In addition, the Nominating and Governance Committee, among other things: makes recommendations concerning the continuing education of Board Members; monitors performance of legal counsel and other service providers; establishes and monitors a process by which security holders

are able to communicate in writing with Board Members; and periodically reviews and makes recommendations about any appropriate changes to Board Member compensation. In the event of a vacancy on the Board, the Nominating and Governance Committee receives suggestions from various sources, including shareholders, as to suitable candidates. Suggestions should be sent in writing to Lorna Ferguson, Manager of Fund Board Relations, Nuveen Investments, 333 West Wacker Drive, Chicago, IL 60606. The Nominating and Governance Committee sets appropriate standards and requirements for nominations for new Board Members and each nominee is evaluated using the same standards. However, the Nominating and Governance Committee reserves the right to interview any and all candidates and to make the final selection of any new Board Members. In considering a candidate's qualifications, each candidate must meet certain basic requirements, including relevant skills and experience, time availability (including the time requirements for due diligence site visits to internal and external sub-advisers and service providers) and, if qualifying as an Independent Board Member candidate, independence from the Adviser, sub-advisers, underwriters or other service providers, including any affiliates of these entities. These skill and experience requirements may vary depending on the current composition of the Board, since the goal is to ensure an appropriate range of skills, diversity and experience, in the aggregate. Accordingly, the particular factors considered and weight given to these factors will depend on the composition of the Board and the skills and backgrounds of the incumbent Board Member at the time of consideration of the nominees. All candidates, however, must meet high expectations of personal integrity, independence, governance experience and professional competence. All candidates must be willing to be critical within the Board and with management and yet maintain a collegial and collaborative manner toward other Board Members. The Nominating and Governance Committee operates under a written charter adopted and approved by the Board, a copy of which is available on the Funds' website at [www.nuveen.com/CEF/Shareholder/FundGovernance.aspx](http://www.nuveen.com/CEF/Shareholder/FundGovernance.aspx), and is composed entirely of Independent Board Members, who are also independent as defined by NYSE or NYSE MKT listing standards, as applicable. Accordingly, the members of the Nominating and Governance Committee are Robert P. Bremner, Chair, Jack B. Evans, William C. Hunter, David J. Kundert, William J. Schneider, Judith M. Stockdale, Carole E. Stone, Virginia L. Stringer and Terence J. Toth. The number of Nominating and Governance Committee meetings of each Fund held during its last fiscal year is shown in Appendix D.

The number of regular quarterly meetings and special meetings held by the Board of each Fund during the Fund's last fiscal year is shown in Appendix D. During the last fiscal year, each Board Member attended 75% or more of each Fund's Board meetings and the committee meetings (if a member thereof) held during the period for which such Board Member was a Board Member. The policy of the Board relating to attendance by Board Members at annual meetings of the Funds and the number of Board Members who attended the last annual meeting of shareholders of each Fund is posted on the Funds' website at [www.nuveen.com/CEF/Shareholder/FundGovernance.aspx](http://www.nuveen.com/CEF/Shareholder/FundGovernance.aspx).

*Board Diversification and Board Member Qualifications.* In determining that a particular Board Member was qualified to serve on the Board, the Board considers each Board Member's background, skills, experience and other attributes in light of the composition of the Board with no particular factor controlling. The Board believes that Board Members need to have the ability to critically review, evaluate, question and discuss information provided to them, and to interact effectively with Fund management, service providers and counsel, in order to exercise effective business judgment in the performance of their duties, and the Board believes each Board Member satisfies this standard. An effective Board Member may achieve this ability through his or her educational background; business, professional training or practice; public service or academic positions; experience from service as a board member or executive of investment funds, public companies or significant private or not-for-profit entities or other organizations;

and/or other life experiences. Accordingly, set forth below is a summary of the experiences, qualifications, attributes, and skills that led to the conclusion, as of the date of this document, that each Board Member should serve in that capacity. References to the experiences, qualifications, attributes and skills of Board Members are pursuant to requirements of the SEC, do not constitute holding out the Board or any Board Member as having any special expertise or experience and shall not impose any greater responsibility or liability on any such person or on the Board by reason thereof.

***John P. Amboian***

Mr. Amboian, an interested Board Member of the Funds, joined Nuveen Investments in June 1995 and became Chief Executive Officer in July 2007 and Chairman in November 2007. Prior to this, since 1999, he served as President with responsibility for the firm's product, marketing, sales, operations and administrative activities. Mr. Amboian initially served Nuveen Investments as Executive Vice President and Chief Financial Officer. Prior to joining Nuveen Investments, Mr. Amboian held key management positions with two consumer product firms affiliated with the Phillip Morris Companies. He served as Senior Vice President of Finance, Strategy and Systems at Miller Brewing Company. Mr. Amboian began his career in corporate and international finance at Kraft Foods, Inc., where he eventually served as Treasurer. He received a Bachelor's degree in economics and a Masters of Business Administration (MBA) from the University of Chicago. Mr. Amboian serves on the Board of Directors of Nuveen Investments and is a Board Member or Trustee of the Investment Company Institute Board of Governors, Boys and Girls Clubs of Chicago, Children's Memorial Hospital and Foundation, the Council on the Graduate School of Business (University of Chicago), and the North Shore Country Day School Foundation. He is also a member of the Civic Committee of the Commercial Club of Chicago and the Economic Club of Chicago.

***Robert P. Bremner***

Mr. Bremner, the Board's Independent Chairman, is a private investor and management consultant in Washington, D.C. His biography of William McChesney Martin, Jr., a former chairman of the Federal Reserve Board, was published by Yale University Press in November 2004. From 1994 to 1997, he was a Senior Vice President at Samuels International Associates, an international consulting firm specializing in governmental policies, where he served in a part-time capacity. Previously, Mr. Bremner was a partner in the LBK Investors Partnership and was chairman and majority stockholder with ITC Investors Inc., both private investment firms. He currently serves on the Board and as Treasurer of the Humanities Council of Washington D.C. and is a Board Member of the Independent Directors Council affiliated with the Investment Company Institute. From 1984 to 1996, Mr. Bremner was an independent trustee of the Flagship Funds, a group of municipal open-end funds. He began his career at the World Bank in Washington D.C. He graduated with a Bachelor of Science degree from Yale University and received his MBA from Harvard University.

***Jack B. Evans***

President of the Hall-Perrine Foundation, a private philanthropic corporation, since 1996, Mr. Evans was formerly President and Chief Operating Officer of the SCI Financial Group, Inc., a regional financial services firm headquartered in Cedar Rapids, Iowa. Formerly, he was a member of the Board of the Federal Reserve Bank of Chicago as well as a Director of Alliant Energy. Mr. Evans is Chairman of the Board of United Fire Group, sits on the Board of the Source Media Group, is a member of the Board of Regents for the State of Iowa University System, and is a Life Trustee of Coe College. He has a Bachelor of Arts degree from Coe College and an MBA from the University of Iowa.

***William C. Hunter***

Mr. Hunter became Dean Emeritus of the Henry B. Tippie College of Business at the University of Iowa on June 30, 2012. He was appointed Dean of the Henry B. Tippie College of Business at the University of Iowa on July 1, 2006. He was previously Dean and Distinguished Professor of Finance at the University of Connecticut School of Business since June 2003. From 1995 to 2003, he was the Senior Vice President and Director of Research at the Federal Reserve Bank of Chicago. While there he served as the Bank's Chief Economist and was an Associate Economist on the Federal Reserve System's Federal Open Market Committee (FOMC). In addition to serving as a Vice President in charge of financial markets and basic research at the Federal Reserve Bank in Atlanta, he held faculty positions at Emory University, Atlanta University, the University of Georgia and Northwestern University. A past Director of the Credit Research Center at Georgetown University, SS&C Technologies, Inc. (2005) and past President of the Financial Management Association International, he has consulted with numerous foreign central banks and official agencies in Western, Central and Eastern Europe, Asia, Central America and South America. From 1990 to 1995, he was a U.S. Treasury Advisor to Central and Eastern Europe. He has been a Director of the Xerox Corporation since 2004 and Wellmark, Inc. since 2009. He is Director and President of Beta Gamma Sigma, Inc., The International Business Honor Society.

***David J. Kundert***

Mr. Kundert retired in 2004 as Chairman of JPMorgan Fleming Asset Management, as President and CEO of Banc One Investment Advisors Corporation, and as President of One Group Mutual Funds. Prior to the merger between Bank One Corporation and JPMorgan Chase and Co., he was Executive Vice President, Bank One Corporation and, since 1995, the Chairman and CEO, Banc One Investment Management Group. From 1988 to 1992, he was President and CEO of Bank One Wisconsin Trust Company. Currently, Mr. Kundert is a Director of the Northwestern Mutual Wealth Management Company. He started his career as an attorney for Northwestern Mutual Life Insurance Company. Mr. Kundert has served on the Board of Governors of the Investment Company Institute and is currently a member of the Wisconsin Bar Association. He is on the Board of the Greater Milwaukee Foundation and chairs its Investment Committee. He is a Regent Emeritus and a Member of the Investment Committee of Luther College. He is also a Member of the Board of Directors (Milwaukee), College Possible. He received his Bachelor of Arts degree from Luther College and his Juris Doctor from Valparaiso University.

***William J. Schneider***

Mr. Schneider is currently Chairman, formerly Senior Partner and Chief Operating Officer (retired, December 2004) of Miller-Valentine Partners Ltd., a real estate investment company. He is also a Member of two Miller Valentine real estate LLC companies. Mr. Schneider is a member of the Business Advisory Council for the University of Dayton College of Business. He is a Board Member of Tech Town, Inc., a not-for-profit community development company, and a Board Member of WDPR Public Radio. He was formerly a Director and Past Chair of the Dayton Development Coalition. He was formerly a member of the Community Advisory Board of the National City Bank in Dayton as well as a former member of the Business Advisory Council of the Cleveland Federal Reserve Bank. Mr. Schneider is a member of the Business Advisory Council for the University of Dayton College of Business. Mr. Schneider was an independent trustee of the Flagship Funds, a group of municipal open-end funds. He also served as Chair of the Miami Valley Hospital and as Chair of the Finance Committee of its parent holding company. Mr. Schneider has a Bachelor of Science in Community Planning from the University of Cincinnati and a Masters of Public Administration from the University of Dayton.

***Judith M. Stockdale***

Ms. Stockdale retired at the end of 2012 as Executive Director of the Gaylord and Dorothy Donnelley Foundation, a private foundation working in land conservation and artistic vitality in the Chicago region and the Lowcountry of South Carolina. Her previous positions include Executive Director of the Great Lakes Protection Fund, Executive Director of Openlands, and Senior Staff Associate at the Chicago Community Trust. She has served on the Boards of the Land Trust Alliance, the National Zoological Park, the Governor's Science Advisory Council (Illinois), the Nancy Ryerson Ranney Leadership Grants Program, Friends of Ryerson Woods and the Donors Forum. Ms. Stockdale, a native of the United Kingdom, has a Bachelor of Science degree in geography from the University of Durham (UK) and a Master of Forest Science degree from Yale University.

***Carole E. Stone***

Ms. Stone retired from the New York State Division of the Budget in 2004, having served as its Director for nearly five years and as Deputy Director from 1995 through 1999. Ms. Stone is currently on the Board of Directors of the Chicago Board Options Exchange, CBOE Holdings, Inc. and C2 Options Exchange, Incorporated. She has also served as the Chair of the New York Racing Association Oversight Board, as Chair of the Public Authorities Control Board, as a Commissioner on the New York State Commission on Public Authority Reform and as a member of the boards of directors of several New York State public authorities. Ms. Stone has a Bachelor of Arts in Business Administration from Skidmore College.

***Virginia L. Stringer***

Ms. Stringer served as the independent chair of the Board of the First American Fund Complex from 1997 to 2010, having joined such Board in 1987. Ms. Stringer serves on the Board of the Mutual Fund Directors Forum. She is a recipient of the Outstanding Corporate Director award from Twin Cities Business Monthly and the Minnesota Chapter of the National Association of Corporate Directors. Ms. Stringer is the past board chair of the Oak Leaf Trust, director emeritus and former Chair of the Saint Paul Riverfront Corporation and also served as President of the Minneapolis Club's Governing Board. She is a director and former board chair of the Minnesota Opera and a Life Trustee and former board member of the Voyageur Outward Bound School. She also served as a trustee of Outward Bound USA. She was appointed by the Governor of Minnesota to the Board on Judicial Standards and also served on a Minnesota Supreme Court Judicial Advisory Committee to reform the state's judicial disciplinary process. She is a member of the International Women's Forum and attended the London Business School as an International Business Fellow. Ms. Stringer recently served as board chair of the Human Resource Planning Society, the Minnesota Women's Campaign Fund and the Minnesota Women's Economic Roundtable. Ms. Stringer is the retired founder of Strategic Management Resources, a consulting practice focused on corporate governance, strategy and leadership. She has twenty five years of corporate experience, having held executive positions in general management, marketing and human resources with IBM and the Pillsbury Company.

***Terence J. Toth***

Mr. Toth is a Managing Partner at Promus Capital (since 2008). From 2008 to 2013, he served as a Director of Legal & General Investment Management America, Inc. From 2004 to 2007, he was Chief Executive Officer and President of Northern Trust Global Investments, and Executive Vice President of Quantitative Management & Securities Lending from 2000 to 2004. He also formerly

served on the Board of the Northern Trust Mutual Funds. He joined Northern Trust in 1994 after serving as Managing Director and Head of Global Securities Lending at Bankers Trust (1986 to 1994) and Head of Government Trading and Cash Collateral Investment at Northern Trust from 1982 to 1986. He currently serves on the Boards of Chicago Fellowship, Fulcrum IT Service LLC (since 2010), Quality Control Corporation (since 2012) and LogicMark LLC (since 2012), and is Chairman of the Board of Catalyst Schools of Chicago. He is on the Mather Foundation Board (since 2012) and is a member of its investment committee. Mr. Toth graduated with a Bachelor of Science degree from the University of Illinois, and received his MBA from New York University. In 2005, he graduated from the CEO Perspectives Program at Northwestern University.

*Independent Chairman.* Robert P. Bremner currently serves as the independent Chairman of the Board. Specific responsibilities of the Chairman include: (a) presiding at all meetings of the Board and of the shareholders; (b) seeing that all orders and resolutions of the Board Members are carried into effect; and (c) maintaining records of and, whenever necessary, certifying all proceedings of the Board Members and the shareholders.

*Board Member Terms.* For each Fund, shareholders will be asked to elect Board Members as each Board Member's term expires, and with respect to Board Members elected by holders of common shares such Board Member shall be elected for a term expiring at the time of the third succeeding annual meeting subsequent to their election or thereafter in each case when their respective successors are duly elected and qualified. These provisions could delay for up to two years the replacement of a majority of the Board.



**The Officers**

The following table sets forth information with respect to each officer of the Funds. Officers receive no compensation from the Funds. The officers are elected by the Board on an annual basis to serve until successors are elected and qualified. Unless otherwise noted, the following information is as of April 15, 2013.

| <b>Name, Address and Birth Date</b>  | <b>Position(s) Held with Fund</b> | <b>Term of Office and Length of Time Served<sup>(1)</sup></b> | <b>Principal Occupation(s) During Past 5 Years</b>  | <b>Number of Portfolios in Fund Complex Served by Officer</b> |
|--|-----------------------------------|---|---|---|
| Gifford R. Zimmerman<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(9/9/56)   | Chief Administrative Officer      | Term: Annual Length of Service: Since 1988                    | Managing Director (since 2002) and Assistant Secretary of Nuveen Securities, LLC; Managing Director (since 2002), Assistant Secretary (since 1997) and Co-General Counsel (since 2011) of Nuveen Fund Advisors, LLC; Managing Director (since 2004) and Assistant Secretary (since 1994) of Nuveen Investments, Inc.; Managing Director, Assistant Secretary and Associate General Counsel of Nuveen Asset Management, LLC (since 2011); Vice President and Assistant Secretary of NWQ Investment Management Company, LLC and Nuveen Investments Advisers Inc. (since 2002); Managing Director, Associate General Counsel and Assistant Secretary of Symphony Asset Management LLC (since 2003); Vice President and Assistant Secretary of Santa Barbara Asset Management, LLC (since 2006) and of Winslow Capital Management, LLC (since 2010); Chief Administrative Officer and Chief Compliance Officer (since 2010) of Nuveen Commodities Asset Management, LLC; Chartered Financial Analyst. | 206   |
| William Adams IV<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(6/9/55)       | Vice President                    | Term: Annual Length of Service: Since 2007                    | Senior Executive Vice President, Global Structured Products, formerly, Executive Vice President (1999-2010) of Nuveen Securities, LLC; Co-President of Nuveen Fund Advisors, LLC (since 2011); President (since 2011), formerly, Managing Director (2010-2011) of Nuveen Commodities Asset Management, LLC.   | 105   |
| Cedric H. Antosiewicz<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(1/11/62) | Vice President                    | Term: Annual Length of Service: Since 2007                    | Managing Director (since 2004) of Nuveen Securities LLC.  | 105   |

| <b>Name, Address and Birth Date</b>   | <b>Position(s) Held with Fund</b> | <b>Term of Office and Length of Time Served<sup>(1)</sup></b> | <b>Principal Occupation(s) During Past 5 Years</b>  | <b>Number of Portfolios in Fund Complex Served by Officer</b> |
|---|-----------------------------------|---|---|---|
| Margo L. Cook<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(4/11/64)      | Vice President                    | Term: Annual Length of Service: Since 2009                    | Executive Vice President (since 2008) of Nuveen Investments, Inc. and of Nuveen Fund Advisors, LLC (since 2011); Managing Director Investment Services of Nuveen Commodities Asset Management, LLC (since 2011); previously, Head of Institutional Asset Management (2007-2008) of Bear Stearns Asset Management; Head of Institutional Asset Mgt. (1986-2007) of Bank of NY Mellon; Chartered Financial Analyst.   | 206   |
| Lorna C. Ferguson<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(10/24/45) | Vice President                    | Term: Annual Length of Service: Since 1998                    | Managing Director (since 2004) of Nuveen Securities, LLC; Managing Director (since 2005) of Nuveen Fund Advisors, LLC.  | 206   |
| Stephen D. Foy<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(5/31/54)     | Vice President and Controller     | Term: Annual Length of Service: Since 1993                    | Senior Vice President (since 2010); formerly, Vice President (1993-2010) and Funds Controller (since 1998) of Nuveen Securities, LLC; Vice President (2005-2010) of Nuveen Fund Advisors, LLC; Certified Public Accountant.   | 206   |
| Scott S. Grace<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(8/20/70)     | Vice President and Treasurer      | Term: Annual Length of Service: Since 2009                    | Managing Director, Corporate Finance & Development, Treasurer (since 2009) of Nuveen Securities, LLC; Managing Director and Treasurer of Nuveen Investments Advisers, Inc., Nuveen Investments Holdings, Inc., Nuveen Fund Advisors, LLC and of Nuveen Asset Management, LLC (since 2011); Vice President and Treasurer of NWQ Investment Management Company, LLC, Tradewinds Global Investors, LLC, Symphony Asset Management LLC and Winslow Capital Management, LLC; Vice President of Santa Barbara Asset Management, LLC; formerly, Treasurer (2006-2009), Senior Vice President (2008-2009), previously, Vice President (2006-2008) of Janus Capital Group, Inc.; formerly, Senior Associate in Morgan Stanley's Global Financial Services Group (2000-2003); Chartered Accountant Designation. | 206   |

| <b>Name, Address and Birth Date</b>   | <b>Position(s) Held with Fund</b>           | <b>Term of Office and Length of Time Served<sup>(1)</sup></b> | <b>Principal Occupation(s) During Past 5 Years</b>  | <b>Number of Portfolios in Fund Complex Served by Officer</b> |
|---|---|---|---|---|
| Walter M. Kelly<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(2/24/70)          | Chief Compliance Officer and Vice President | Term: Annual Length of Service: Since 2003                    | Senior Vice President (since 2008) of Nuveen Investments Holdings, Inc.; Senior Vice President (since 2008) and Assistant Secretary (since 2003), of Nuveen Fund Advisors, LLC; formerly, Senior Vice President of Nuveen Securities, LLC (2008-2011).  | 206   |
| Tina M. Lazar<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(8/27/61)            | Vice President                              | Term: Annual Length of Service: Since 2002                    | Senior Vice President (since 2010), formerly, Vice President (2005-2010) of Nuveen Fund Advisors, LLC.  | 206   |
| Kevin J. McCarthy<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(3/26/66)        | Vice President and Secretary                | Term: Annual Length of Service: Since 2007                    | Managing Director and Assistant Secretary (since 2008), formerly, Vice President (2007-2008) of Nuveen Securities, LLC; Managing Director (since 2008), Assistant Secretary (since 2007) and Co-General Counsel (since 2011) of Nuveen Fund Advisors, LLC; Managing Director, Assistant Secretary and Associate General Counsel (since 2011) of Nuveen Asset Management, LLC; Vice President and Assistant Secretary of Nuveen Investment Advisers Inc., NWQ Investment Management Company, LLC, NWQ Holdings, LLC, Symphony Asset Management LLC, Santa Barbara Asset Management, LLC and (since 2010) Winslow Capital Management, LLC; Vice President and Secretary (since 2010) of Nuveen Commodities Asset Management, LLC; prior thereto, Partner, Bell, Boyd & Lloyd LLP (1997-2007). | 206   |
| Kathleen L. Prudhomme<br>901 Marquette Avenue<br>Minneapolis, MN 55402<br>(3/30/53) | Vice President and Assistant Secretary      | Term: Annual Length of Service: Since 2011                    | Managing Director and Assistant Secretary of Nuveen Securities, LLC (since 2011); Managing Director, Assistant Secretary and Associate General Counsel (since 2011) of Nuveen Fund Advisors, LLC; Managing Director, Assistant Secretary and Associate General Counsel (since 2011) of Nuveen Asset Management, LLC; formerly, Deputy General Counsel, FAF Advisors, Inc. (2004-2010).  | 206   |

(1) Length of Time Served indicates the year the individual became an officer of a fund in the Nuveen fund complex.

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**PROPOSAL NO. 2 REORGANIZATION OF THE TARGET FUND INTO THE ACQUIRING FUND (COMMON SHAREHOLDERS OF THE TARGET FUND)**

**A. SYNOPSIS**

The following is a summary of certain information contained elsewhere in this Joint Proxy Statement/Prospectus with respect to the proposed Reorganization and is qualified in its entirety by reference to the more complete information contained in this Joint Proxy Statement/Prospectus and in the Reorganization SAI and the appendices thereto. Shareholders should read the entire Joint Proxy Statement/Prospectus carefully. Certain capitalized terms used but not defined in this summary are defined elsewhere in this Joint Proxy Statement/Prospectus.

**Background and Reasons for the Reorganization**

The Board of Nuveen's municipal closed-end funds has approved a series of mergers of municipal closed-end funds, including the reorganization of the Target Fund into the Acquiring Fund. Each Board has determined that the Reorganization would be in the best interests of its Fund. Each Fund's Board considered the Reorganization as part of a broad initiative to rationalize the product offerings of Nuveen funds and eliminate overlapping products. The Acquiring Fund and the Target Fund have similar investment objectives and policies, and substantially similar portfolio compositions. The proposed Reorganization is intended to result in lower total operating expenses per common share (excluding the costs of leverage) due to economies of scale resulting from the larger size of the combined fund and to enhance the secondary trading market for common shares of the Acquiring Fund as a result of the greater share volume of the combined fund. In order for the Reorganization to occur, each Fund must obtain the requisite shareholder approvals as well as certain consents, confirmations and/or waivers from various third parties, including rating agencies with respect to outstanding preferred shares. Because the closing of the Reorganization is contingent on the Target Fund and the Acquiring Fund satisfying (or obtaining the waiver of) their respective closing conditions, it is possible that the Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions. If the requisite shareholder approvals are not obtained, each Fund's Board may take such actions as it deems in the best interest of its Fund including conducting additional solicitations with respect to the proposals or continuing to operate the Fund as a stand-alone fund. For a fuller discussion of the Board's considerations regarding the approval of the Reorganization, see Proposal No. 2 Information About the Reorganization Reasons for the Reorganization.

**Material Federal Income Tax Consequences of the Reorganization**

As a condition to closing, the Funds will receive an opinion of Vedder Price P.C., subject to certain representations, assumptions and conditions, substantially to the effect that the proposed Reorganization will qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code). In addition, K&L Gates LLP, as special tax counsel to the Acquiring Fund, will deliver an opinion to the Acquiring Fund, subject to certain representations, assumptions and conditions, substantially to the effect that the Acquiring Fund VMTP Shares received in the Reorganization by holders of the VMTP Shares of the Target Fund will qualify as equity in the Acquiring Fund for federal income tax purposes. Accordingly, it is expected that neither Fund will recognize gain or loss for federal income tax purposes as a direct result of the Reorganization. It is also expected that common shareholders of the Target Fund who receive Acquiring Fund common shares pursuant to the Reorganization will recognize no gain or loss for federal income tax purposes, except

that gain or loss may be recognized with respect to any cash received in lieu of fractional Acquiring Fund common shares being issued. Prior to the closing of the Reorganization, the Target Fund expects to declare a distribution of all of its net investment income and net capital gains, if any. All or a portion of such distribution may be taxable to the Target Fund's shareholders for federal income tax purposes. In addition, to the extent that Target Fund portfolio securities are sold in connection with the Reorganization, the Target Fund may realize gains or losses, which may increase or decrease the taxable dividends and net capital gain to be distributed by the Target Fund. However, since the Target Fund's current portfolio composition is substantially similar to that of the Acquiring Fund, it is not currently expected that any significant portfolio sales will occur solely in connection with the Reorganization (less than 5% of the assets of the Target Fund).

### Comparison of the Acquiring Fund and the Target Fund

*General.* The Acquiring Fund and the Target Fund are closed-end management investment companies. Each Fund is a diversified management investment company. Set forth below is certain comparative information about the organization, capitalization and operation of the Acquiring Fund and the Target Fund.

| Fund           | Organization       |  | State of Organization | Entity Type    |
|----------------|--------------------|--|-----------------------|----------------|
|                | Organization Date  |  |                       |                |
| Acquiring Fund | October 8, 2003    |  | Massachusetts         | business trust |
| Target Fund    | September 13, 2007 |  | Massachusetts         | business trust |

| Fund           | Capitalization    |                                   |                     | Common Shares                             |                             |  | Exchange on which Common Shares are Listed |
|----------------|-------------------|-----------------------------------|---------------------|---|-----------------------------|--|--|
|                | Authorized Shares | Shares Outstanding <sup>(1)</sup> | Par Value Per Share | Preemptive, Conversion or Exchange Rights | Rights to Cumulative Voting |  |  |
| Acquiring Fund | Unlimited         | 31,336,775                        | \$ 0.01             | None                                      | None                        |  | NYSE MKT                                   |
| Target Fund    | Unlimited         | 18,899,837                        | \$ 0.01             | None                                      | None                        |  | NYSE                                       |

(1) As of March 18, 2013.

Upon the closing of the Reorganization, it is expected that the common shares of the Acquiring Fund will continue to be listed on the NYSE MKT.

The Acquiring Fund currently has outstanding 510 VMTP Shares, with a par value of \$0.01 per share and a liquidation preference of \$100,000 per share, which will remain outstanding following the completion of the Reorganization. The Target Fund has outstanding 360 VMTP Shares, with a par value of \$0.01 per share and a liquidation preference of \$100,000 per share. VMTP Shares are entitled to one vote per share. Preferred shares issued by the Acquiring Fund in connection with the Reorganization will have equal priority with outstanding preferred shares of the Acquiring Fund as to the payment of dividends and the distribution of assets in the event of the Acquiring Fund's liquidation. In addition, preferred shares of the Acquiring Fund, including preferred shares issued by the Acquiring Fund in connection with the Reorganization, will have priority in all respects to the Acquiring Fund's common shares, as to the payment of dividends and the distribution of assets upon liquidation. The Acquiring Fund VMTP Shares to be issued to the Target Fund pursuant to the Reorganization will have rights and preferences, including liquidation preferences, that are substantially identical, as of the closing of the Reorganization, to those of the outstanding Target Fund VMTP Shares for which they are exchanged.

*Investment Objectives and Policies.* The Funds have similar investment objectives and policies. The Acquiring Fund's primary investment objective is to provide high current income exempt from regular federal income tax. The Acquiring Fund's secondary investment objective is to seek attractive total return consistent with its primary objective. Similarly, the Target Fund's primary investment objective is to provide attractive income exempt from regular federal income tax. The Target Fund's secondary investment objective is to seek additional return.

Under normal circumstances, each Fund invests its assets, including assets attributable to preferred shares and the principal amount of any borrowings ( 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 each 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, each Fund expects to be fully invested (at least 95% of its Managed Assets) in such tax-exempt municipal securities. Up to 30% of each 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. Each Fund seeks to achieve its investment objectives by investing in municipal securities that the Adviser believes are underrated and undervalued.

Each Fund invests 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 Investors Service, Inc. ( Moody's ), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ( S&P ), or Fitch Ratings ( 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 the Adviser.

Each 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 NRSRO but rated below investment grade by at least one NRSRO. No more than 5% of the Acquiring Fund's Managed Assets and, with respect to the Target Fund, 10% of its Managed Assets, may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by the Adviser. This means that each 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 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 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 of each Fund's assets by the Adviser, market value fluctuations, issuance of additional shares and other events. If a municipal security satisfies the ratings requirements described above at the time of purchase, a Fund will not be required to dispose of the security upon a downgrade.

Each 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. In addition, each Fund may purchase municipal securities that are additionally secured by insurance, bank credit agreements or escrow accounts. The credit quality of companies that provide such credit enhancements will affect the value of those securities. Although the insurance feature reduces certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce a Fund's income. Each Fund may use any insurer, regardless of its rating. A municipal security with an

insurance feature 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 Funds' common shares.

Each Fund may enter into certain derivative instruments in pursuit of its investment objectives, including 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. 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. A Fund may not enter into a futures contract or related options or forward contracts if more than 30% of the Fund's net assets would be represented by futures contracts or more than 5% of the Fund's net assets would be committed to initial margin deposits and premiums on futures contracts or related options.

Each Fund may invest up to approximately 15% of its Managed Assets in inverse floating rate securities. Inverse floating rate securities represent a leveraged investment in the underlying municipal bond deposited. Inverse floating rate securities offer the opportunity for higher income than the underlying bond, but will subject the Fund to the risk of lower or even no income if short-term interest rates rise sufficiently. By investing in an inverse floating rate security rather than directly in the underlying bond, the Fund will experience a greater increase in its common share net asset value if the underlying municipal bond increases in value, but will also experience a correspondingly larger decline in its common share net asset value if the underlying bond declines in value.

Each Fund may borrow money for the repurchase of its shares or for temporary or emergency purposes, such as for the payment of dividends or the settlement of portfolio transactions. During temporary defensive periods and in order to keep the Fund's cash fully invested, each 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. Each Fund intends to invest in taxable short-term investments only in the event that that suitable tax-exempt short-term investments are not available at reasonable prices and yields.

*Credit Quality.* A comparison of the credit quality (as a percentage of total investment exposure to municipal bonds, which includes the leveraged effect of the Funds' investments in tender option bond trusts) of the respective portfolios of the Acquiring Fund and the Target Fund, as of October 31, 2012, is set forth in the table below.

| Credit Rating <sup>(1)</sup> | Acquiring Fund <sup>(2)</sup> | Target Fund <sup>(2)</sup> | Combined Fund Pro Forma <sup>(2)</sup> |
|------------------------------|-------------------------------|----------------------------|--|
| AAA/U.S. Guaranteed          | 1%                            | 4%                         | 4%                                     |
| AA                           | 34%                           | 25%                        | 31%                                    |
| A                            | 10%                           | 18%                        | 13%                                    |
| BBB                          | 13%                           | 17%                        | 15%                                    |
| BB or Lower                  | 11%                           | 11%                        | 11%                                    |
| N/R                          | 31%                           | 29%                        | 30%                                    |
| <b>TOTAL</b>                 | <b>100%</b>                   | <b>100%</b>                | <b>100%</b>                            |

(1) Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies (S&P), Moody's Investors Service, Inc. (Moody's) or Fitch, Inc. (Fitch). Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC, CC and D are below-investment grade ratings. Certain bonds backed

by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

- (2) Excluding investments in derivatives.
- (3) Rounds to less than 1%.

*Leverage.* Each Fund may utilize the following forms of leverage: (a) portfolio investments that have the economic effect of leverage, including but not limited to investments in futures, options and inverse floating rate securities, (b) bank borrowings; and (c) the issuance of preferred shares. On December 21, 2012, each of the Acquiring Fund and the Target Fund terminated a senior committed secured 364-day revolving line of credit with its custodian bank and paid the full outstanding balance, including accrued interest and fees. In conjunction with terminating these borrowings, the Acquiring Fund and the Target Fund issued \$51 million and \$36 million of VMTP Shares, respectively, as a new form of leverage. As a result, each Fund currently engages in leverage through the issuance of preferred shares and the use of inverse floaters. Certain important ratios related to each Fund's use of leverage for the last three fiscal years for which financial statements are available are set forth below:

| <b>Acquiring Fund</b>                    | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|-------------|
| Asset Coverage Ratio                     | 905.15%     | 746.18%     | 441.53%     |
| Regulatory Leverage Ratio <sup>(1)</sup> | 11.05%      | 13.40%      | 22.65%      |
| Effective Leverage Ratio <sup>(2)</sup>  | 33.90%      | 34.75%      | 31.15%      |

| <b>Target Fund</b>                       | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|-------------|
| Asset Coverage Ratio                     | 793.24%     | 669.79%     | 689.54%     |
| Regulatory Leverage Ratio <sup>(1)</sup> | 12.61%      | 14.93%      | 14.50%      |
| Effective Leverage Ratio <sup>(2)</sup>  | 33.41%      | 36.88%      | 29.82%      |

- (1) Regulatory leverage consists of preferred shares or debt issued by the Fund. Both of these are part of a Fund's capital structure. Regulatory leverage is sometimes referred to as 1940 Act Leverage and is subject to asset coverage limits set forth in the 1940 Act.
- (2) Effective leverage is a Fund's effective economic leverage, and includes both regulatory leverage and the leverage effects of certain derivative investments in the Fund's portfolio. Currently, the leverage effects of Tender Option Bond (TOB) inverse floater holdings, in addition to any regulatory leverage, are included in effective leverage ratios.

*Board Members and Officers.* The Acquiring Fund and the Target Fund have the same Board Members and officers. The management of each Fund, including general supervision of the duties performed by the Adviser under an investment management agreement between the Adviser and each Fund (an Investment Management Agreement), is the responsibility of its Board. Each Fund currently has ten (10) trustees, one (1) of whom is an interested person (as defined in the 1940 Act) and nine (9) of whom are not interested persons (the independent trustees). The names and business addresses of the Board Members and officers of the Funds and their principal occupations and other affiliations during the past five years are set forth under Proposal No. 1 Board Nominees/Board Members.

*Investment Adviser.* The Adviser, Nuveen Fund Advisors, is the investment adviser to each Fund and is responsible for overseeing each Fund's overall investment strategy, including the use of leverage, and its implementation. Nuveen Fund Advisors also is responsible for the ongoing monitoring of the sub-adviser to the Funds, managing each Fund's business affairs and providing certain clerical, bookkeeping and other administrative services to the Funds. Nuveen Fund Advisors is located at 333 West Wacker Drive, Chicago, IL 60606.



The Adviser, a registered investment adviser, is a wholly-owned subsidiary of Nuveen Investments. Founded in 1898, Nuveen Investments and its affiliates had approximately \$220 billion in assets under management as of September 30, 2012. On November 13, 2007, Nuveen Investments was acquired by investors led by Madison Dearborn Partners, LLC (the MDP Acquisition).

Nuveen Fund Advisors has selected its affiliate, Nuveen Asset Management, LLC (Nuveen Asset Management or the Sub-Adviser), located at 333 West Wacker Drive, Chicago, IL 60606, to serve as a sub-adviser to each of the Funds, pursuant to a sub-advisory agreement between Nuveen Fund Advisors and Nuveen Asset Management (the Sub-Advisory Agreement). Nuveen Asset Management oversees day-to-day operations and manages the investment of the Funds' assets on a discretionary basis, subject to the supervision of Nuveen Fund Advisors. Pursuant to the sub-advisory agreement, Nuveen Asset Management will be compensated for the services it provides to the Funds with a portion of the management fee Nuveen Fund Advisors receives from the Fund. Nuveen Fund Advisors and Nuveen Asset Management retain the right to reallocate investment advisory responsibilities and fees between themselves in the future.

Each Fund is dependent upon services and resources provided by its Adviser, and therefore the Adviser's parent, Nuveen Investments. Nuveen Investments significantly increased its level of debt in connection with the MDP Acquisition. While Nuveen Investments believes that monies generated from operations and cash on hand will be adequate to fund debt service requirements, capital expenditures and working capital requirements for the foreseeable future, there can be no assurance that Nuveen Investments' business will generate sufficient cash flow from operations or that future borrowings will be available in an amount sufficient to enable Nuveen Investments to pay its indebtedness (with scheduled maturities beginning in 2014) or to fund its other liquidity needs. Nuveen Investments believes that potential adverse changes to its overall financial position and business operations would not adversely affect its or its affiliate's portfolio management operations and would not otherwise adversely affect its ability to fulfill its obligations to the Funds under the Investment Management Agreements.

Unless earlier terminated as described below, each Fund's Investment Management Agreement with Nuveen Fund Advisors will remain in effect until August 1, 2013. Each Investment Management Agreement continues in effect from year to year so long as such continuation is approved at least annually by: (1) the Board of Trustees or the vote of a majority of the outstanding voting securities of the Fund; and (2) a majority of the trustees who are not interested persons of any party to the Investment Management Agreement, cast in person at a meeting called for the purpose of voting on such approval. Each Investment Management Agreement may be terminated at any time, without penalty, by either the Fund or Nuveen Fund Advisors upon 60 days' written notice, and is automatically terminated in the event of its assignment as defined in the 1940 Act.

Pursuant to each Investment Management Agreement, each Fund has agreed to pay an annual management fee for the overall advisory and administrative services and general office facilities provided by Nuveen Fund Advisors. The Fund's management fee consists of two components: a complex-level component, based on the aggregate amount of all eligible fund assets managed by Nuveen Fund Advisors, and a specific fund-level component, based only on the amount of Managed Assets within such Fund. This pricing structure enables the Funds' shareholders to benefit from growth in assets within each individual fund as well as from growth of complex-wide assets managed by Nuveen Fund Advisors.

The annual fund-level fee for each Fund, payable monthly, is calculated according to the following schedule:

**Management Fee Schedule for the Acquiring Fund and the Target Fund**

| Average Daily Managed Assets*       | Fund-Level<br>Fee Rate |
|-------------------------------------|------------------------|
| For the first \$125 million         | 0.5500%                |
| For the next \$125 million          | 0.5375%                |
| For the next \$250 million          | 0.5250%                |
| For the next \$500 million          | 0.5125%                |
| For the next \$1 billion            | 0.5000%                |
| For managed assets over \$2 billion | 0.4750%                |

The management fee compensates the Adviser for overall investment advisory and administrative services and general office facilities. Each Fund pays all of its other costs and expenses of its operations, including compensation of its Board Members (other than those affiliated with the Adviser), custodian, transfer agency and dividend disbursing expenses, legal fees, expenses of independent auditors, expenses of repurchasing shares, expenses of issuing any preferred shares, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any. For the services provided pursuant to an investment sub-advisory agreement, Nuveen Fund Advisors pays Nuveen Asset Management a fee, payable monthly, equal to 46.6667% of the management fee (net of applicable breakpoints, waivers and reimbursements) paid by the Funds to Nuveen Fund Advisors.

Due to the increased size of the combined fund, the effective fund-level fee rate as a percentage of average daily Managed Assets for the combined fund is expected to be lower than the current effective fund-level fee rate for the Target Fund. While the effective fund-level management fee rate as a percentage of net assets applicable to common shares is expected to be higher for the Acquiring Fund, the total annual expenses for the Acquiring Fund are expected to be lower. Each Fund also pays a complex-level fee to Nuveen Fund Advisors, which is payable monthly and is in addition to the fund-level fee. The complex-level fee is based on the aggregate daily amount of eligible assets for all Nuveen sponsored funds in the U.S., as stated in the table below. As of October 31, 2012, the complex-level fee rate for each of these Funds was 0.1691%.

The annual complex-level fee for each Fund, payable monthly, is calculated according to the following schedule:

**Complex-Level Fee Rates**

| Complex-Level Managed Asset Breakpoint Level* | Effective Rate<br>at Breakpoint<br>Level |
|---|--|
| \$55 billion                                  | 0.2000%                                  |
| \$56 billion                                  | 0.1996%                                  |
| \$57 billion                                  | 0.1989%                                  |
| \$60 billion                                  | 0.1961%                                  |
| \$63 billion                                  | 0.1931%                                  |
| \$66 billion                                  | 0.1900%                                  |
| \$71 billion                                  | 0.1851%                                  |

| Complex-Level Managed Asset Breakpoint Level* | Effective Rate<br>at Breakpoint<br>Level |
|---|--|
| \$76 billion                                  | 0.1806%                                  |
| \$80 billion                                  | 0.1773%                                  |
| \$91 billion                                  | 0.1691%                                  |
| \$125 billion                                 | 0.1599%                                  |
| \$200 billion                                 | 0.1505%                                  |
| \$250 billion                                 | 0.1469%                                  |
| \$300 billion                                 | 0.1445%                                  |

\* For the fund-level and complex-level fees, managed assets include closed-end fund assets managed by the Adviser that are attributable to financial leverage. For these purposes, financial leverage includes the funds' use of preferred stock and borrowings and certain investments in the residual interest certificates (also called inverse floating rate securities) in tender option bond (TOB) trusts, including the portion of assets held by a TOB trust that has been effectively financed by the trust's issuance of floating rate securities, subject to an agreement by the Adviser as to certain funds to limit the amount of such assets for determining managed assets in certain circumstances. The complex-level fee is calculated based upon the aggregate daily managed assets of all Nuveen Funds that constitute eligible assets. Eligible assets do not include assets attributable to investments in other Nuveen Funds or assets in excess of a determined amount (originally \$2 billion) added to the Nuveen Fund complex in connection with Nuveen Fund Advisors' assumption of the management of the former First American Funds effective January 1, 2011.

A discussion of the basis for the Board's most recent approval of each Fund's Investment Management Agreement and the Sub-Advisory Agreement is included in the Fund's Annual Report for the fiscal year ended October 31, 2012.

*Portfolio Management.* Subject to the supervision of Nuveen Fund Advisors, Nuveen Asset Management is responsible for execution of specific investment strategies and day-to-day investment operations. Nuveen Asset Management manages the Funds using a team of analysts and a portfolio manager that focuses on a specific group of funds. John V. Miller, CFA, is the portfolio manager of the Acquiring Fund and the Target Fund. Additional information regarding the portfolio manager's compensation, other accounts managed and ownership of securities is contained in the Reorganization SAI. Mr. Miller has been the portfolio manager for the Acquiring Fund since its inception in 2003 and has been involved in the management of the Target Fund since its inception in 2007. He assumed full portfolio management responsibility for the Target Fund in 2010. Mr. Miller will continue to manage the Acquiring Fund upon completion of the Reorganization.

Mr. Miller manages 10 Nuveen-sponsored investment companies, with a total of approximately \$14.27 billion under management as of December 31, 2012. He joined Nuveen's investment management team as a credit analyst in 1996, with three prior years of experience in the municipal market with a private account management firm. He has been responsible for analysis of high yield credits in the utility, solid waste and energy related sectors. Mr. Miller is a Managing Director of Nuveen (since 2007), and Co-Head of Fixed Income of Nuveen Asset Management (since 2011). He was previously an analyst with C.W. Henderson & Assoc., a municipal bond manager for private accounts. Mr. Miller earned a B.A. in economics and political science from Duke University, an M.A. in economics from Northwestern University and an M.B.A. in finance with honors from the University of Chicago. He holds the Chartered Financial Analyst designation and is a member of the CFA Institute and the CFA Society of Chicago.

### **Comparative Risk Information**

Because the Funds have similar investment strategies, the principal risks of each Fund are similar. Each Fund is subject to various risks associated with investing primarily in a portfolio of municipal securities, including credit risk, interest rate risk, income risk, municipal securities market risk, prepayment or extension risk, reinvestment risk and liquidity risk. Credit risk is the risk that an issuer may be unable or unwilling to make timely payments of interest or principal. Changes in interest rates will affect the value of investments in fixed-income securities. When interest rates rise, the value of investments in fixed-income securities tends to fall and this decrease in value may not be offset by higher income from new investments. Interest rate risk is generally greater for fixed-income securities with longer maturities or durations. Income risk is the risk that falling interest rates will cause a Fund's income to decline. Municipal securities market risk is the risk that special factors may adversely affect the value of municipal securities and have a significant effect on the yield or value of a Fund's investments in municipal securities. These factors include economic conditions, political or legislative changes, uncertainties related to the tax status of municipal securities, or the rights of investors. Prepayment risk is the risk that a loan, bond or other security might be called or otherwise converted, prepaid or redeemed before maturity. If this happens, particularly during a time of declining interest rates or credit spreads, a Fund may not be able to invest the proceeds in securities providing as much income, resulting in a lower yield to the Fund (this is known as reinvestment risk). Conversely, extension risk is the risk that as interest rates rise or spreads widen, payments of securities may occur more slowly than anticipated by the market. When this happens, the values of these securities may decline because their interest rates are lower than current market rates and they remain outstanding longer than anticipated. Liquidity risk exists when particular investments are difficult to purchase or sell. Each Fund's investments in illiquid securities may reduce the returns of the Fund because it may be unable to sell the illiquid securities at an advantageous time or price.

Each Fund also is subject to the risks associated with the use of inverse floating rate securities and the issuance of preferred shares, including leverage risk. Leverage exists when a Fund purchases or sells an instrument or enters into a transaction without investing cash in an amount equal to the full economic exposure of the instrument or transaction and the Fund could lose more than it invested. Leverage created from borrowing or certain types of transactions or instruments may impair the Fund's liquidity, cause it to liquidate positions at an unfavorable time, increase volatility or otherwise not achieve its intended objective.

The principal risks of investing in the Acquiring Fund are described in more detail below. An investment in the Target Fund is also subject to each of these principal risks.

### **Comparative Expense Information**

The purpose of the comparative fee table is to assist you in understanding the various costs and expenses of investing in common shares of the Funds. The information in the table reflects the fees and expenses for each Fund's fiscal year ended October 31, 2012, adjusted as described in footnotes below, and the pro-forma expenses for the 12 months ended October 31, 2012 for the combined fund. The figures in the Example are not necessarily indicative of past or future expenses, and actual expenses may be greater or less than those shown. The Funds' actual rates of return may be greater or less than the hypothetical 5% annual return shown in the Example.

## Comparative Fee Table

|  | Acquiring Fund <sup>(1)</sup> | Target Fund <sup>(2)</sup> | Combined Fund Pro Forma <sup>(3)</sup> |
|--|-------------------------------|----------------------------|--|
| <b>Annual Expenses (as a percentage of net assets applicable to common shares)</b>         |                               |                            |  |
| Management Fees  | 1.01%                         | 1.10%                      | 1.03%                                  |
| Fees on VMTP Shares and Interest and Related Expenses from Inverse Floaters <sup>(4)</sup> | 0.22%                         | 0.23%                      | 0.22%                                  |
| Other Expenses   | 0.19%                         | 0.17%                      | 0.16%                                  |
| <b>Total Annual Expenses</b>   | <b>1.42%</b>                  | <b>1.50%</b>               | <b>1.41%</b>                           |

- (1) 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 Agreement 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 VMTP 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.
- (2) Stated as percentages of average net assets attributable to Common Shares for the fiscal year ended October 31, 2012, adjusted to reflect the termination of the borrowing arrangement with the custodian bank on December 21, 2012 and the issuance of \$36 million of VMTP Shares on that same date.
- (3) The Combined Fund Pro Forma figures reflect the impact of applying the Acquiring Fund's fund-level management fee rates to the Combined Fund Pro Forma and the anticipated reduction of certain duplicative expenses eliminated as a result of the Reorganization. Combined Fund Pro Forma expenses do not include the expenses to be borne by the Funds in connection with the Reorganization, which are estimated to be \$50,000 (0.01%) for the Acquiring Fund and \$620,000 (0.28%) for the Target Fund.
- (4) 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.

*Example:* The following examples illustrate the expenses that a common shareholder would pay on a \$1,000 investment that is held for the time periods provided in the table. The examples assume that all dividends and other distributions are reinvested and that Total Annual Expenses remain the same. The examples also assume a 5% annual return. The examples should not be considered a representation of future expenses. Actual expenses may be greater or lesser than those shown.

|                         | 1 Year | 3 Years | 5 Years | 10 Years |
|-------------------------|--------|---------|---------|----------|
| Acquiring Fund          | \$ 14  | \$ 45   | \$ 78   | \$ 170   |
| Target Fund             | \$ 15  | \$ 47   | \$ 82   | \$ 179   |
| Combined Fund Pro Forma | \$ 14  | \$ 45   | \$ 77   | \$ 169   |

**Comparative Performance Information**

Comparative total return performance for the Funds for periods ended October 31, 2012:

| Fund (Inception Date)     | Average Annual Total Return<br>on Net Asset Value |               |                    | Average Annual Total Return<br>on Market Value |               |                    |
|---------------------------|---|---------------|--------------------|--|---------------|--------------------|
|                           | One<br>Year                                       | Five<br>Years | Since<br>Inception | One<br>Year                                    | Five<br>Years | Since<br>Inception |
| Acquiring Fund (11/19/03) | 24.55%  | 6.23%         | 7.36%              | 29.84%   | 6.45%         | 7.18%              |
| Target Fund (11/15/07)    | 24.56%  | N/A           | 6.29%              | 27.09%   | N/A           | 5.29%              |

Average Annual Total Return on 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 reinvestment 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. Average Annual Total Return 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 it may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Past performance information is not necessarily indicative of future results.

**B. RISK FACTORS**

An investment in the Acquiring Fund may not be appropriate for all investors. The Acquiring Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Acquiring Fund will achieve its investment objectives. Investors should consider their long-term investment goals and financial needs when making an investment decision with respect to the Acquiring Fund. An investment in the Acquiring Fund is intended to be a long-term investment, and you should not view the Fund as a trading vehicle. Your 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, if applicable.

Because the Funds have similar investment strategies, the principal risks of each Fund are similar. The principal risks of investing in the Acquiring Fund and the Target Fund are described below. The risks and special considerations listed below should be considered by shareholders of each Fund in their evaluation of the Reorganization.

*Investment and Market Risk.* An investment in the Funds' 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 a Fund, which generally trade in the over-the-counter markets. Your 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, if applicable. In addition, the ability of municipalities to collect revenue and service their obligations could be materially and adversely affected by an economic downturn or prolonged recession.

*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 Funds. Conditions in the U.S. and global economies have resulted, and may continue to result, in fixed income instruments experiencing unusual liquidity issues, in creased 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 Municipal Securities Market Risk.

*Market Discount from Net Asset Value.* Shares of closed-end investment companies may fluctuate and during certain periods trade at prices lower than net asset value. The Funds cannot predict whether their common shares will trade at, above or below net asset value. This characteristic is a risk separate and distinct from the risk that a 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. The common shares are designed primarily for long-term investors, and you should not view a Fund as a vehicle for trading purposes.

*Credit and Below-Investment-Grade Risk.* Credit risk is the risk that one or more municipal securities in a Fund's portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status. In general, lower-rated municipal securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative impact on a Fund's net asset value or dividends. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. If a downgrade occurs, the Adviser will consider what action, including the sale of the security, is in the best interests of a Fund and its shareholders. Municipal securities of below-investment-grade quality, commonly referred to as junk bonds, are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal when due, and they are more susceptible to default or decline in market value due to adverse economic and business developments than investment-grade municipal securities. Also, to the extent that the rating assigned to a municipal security in a 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 a Fund, compared with a portfolio consisting solely of investment-grade securities, may experience the following:

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

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

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

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

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

The secondary market for below-investment-grade securities may not be as liquid as the secondary market for more highly rated securities, a factor that may have an adverse effect on a Fund's ability to dispose of a particular security. There are fewer dealers in the market for below-investment-grade municipal securities than the market for investment-grade municipal securities. The prices quoted by different dealers for below-investment-grade municipal securities may vary significantly, and the spread between the bid and ask price is generally much larger for below-investment-grade municipal securities than for higher-quality instruments. Under adverse market or economic conditions, the secondary market for below-investment-grade securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these



instruments may become illiquid. As a result, a Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating a Fund's net asset value.

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

Each Fund may invest in distressed securities, which are securities issued by companies that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition by a Fund. The issuers of such securities may be in transition, out of favor, financially leveraged or troubled, or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation. These characteristics of these companies can cause their securities to be particularly risky, although they also may offer the potential for high returns. These companies' securities may be considered speculative, and the ability of the companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within the companies. Distressed securities frequently do not produce income while they are outstanding and may require a Fund to bear certain extraordinary expenses in order to protect and recover its investment.

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

*Municipal Securities Market Risk.* Investing in the municipal securities market involves certain risks. The municipal securities market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms' capital became severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal securities. The amount of public information available about the municipal securities in each Fund's portfolio is generally less than that for corporate equities or bonds, and the Funds' investment performance may therefore be more dependent on the Adviser's analytical abilities than if the Funds were to invest in a stock fund or taxable bond fund. The secondary market for municipal securities, particularly the below-investment-grade bonds in which the Funds may invest, also tends to be less well developed or liquid than many other securities markets, which may adversely affect

a Fund's ability to sell its municipal securities at attractive prices or at prices approximating those at which each Fund currently values them. Municipal securities may contain redemption provisions, which may allow the securities to be called or redeemed prior to their stated maturity, potentially resulting in the distribution of principal and a reduction in subsequent interest distributions.

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

*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 a 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 a Fund to reinvest in lower-yielding securities and potentially reducing a 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 a Fund's value. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change. Because the Funds primarily invest in longer-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 Funds invested primarily in shorter-term municipal securities. Because the values of lower-rated and comparable unrated debt securities are affected both by credit risk and interest rate risk, the price movements of such lower grade securities typically have not been highly correlated to the fluctuations of the prices of investment-grade-quality securities in response to changes in market interest rates. The Funds' use of leverage, as described herein, will tend to increase common share interest rate risk.

*Inverse Floating Rate Securities Risk.* Each 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 *Additional Information About the Investment Policies Portfolio 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 Funds to the risks of reduced or eliminated interest payments and losses of principal.

Each 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, each Fund may enter into a separate shortfall and forbearance agreement with the third-party sponsor of a special purpose trust. Each Fund may enter into such recourse agreements: (i) when the liquidity provider to the special

purpose trust requires such an agreement because the level of leverage in the trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require a 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, a Fund may be at risk of loss that exceeds its investment in the inverse floating rate securities.

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

Each 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 a 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 has a three to one gearing to the principal amount of the inverse floating rate securities owned by the trust. In the event of a significant decline in the value of an underlying security, a 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.

Each Fund's investment in inverse floating rate securities will create effective leverage. Any effective leverage achieved through a Fund's investment in inverse floating rate securities 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 such Fund.

The amount of fees paid to Nuveen Asset Management for investment advisory services will be higher if a Fund uses leverage because the fees will be calculated based on the Fund's Managed Assets; this may create an incentive for Nuveen Asset Management to leverage a Fund. As previously described, Managed Assets means the total assets of a Fund, minus the sum of its accrued liabilities (other than liabilities incurred for the express purpose of creating effective leverage). Total assets for this purpose shall include assets attributable to a 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 a Fund owns the inverse floater certificates that has been effectively financed by the trust's issuance of floating rate certificates.

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

Inverse floating rate securities have varying degrees of liquidity based, among other things, upon the liquidity of the underlying securities deposited in a 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 shares may be greater for a fund (like the Funds) that relies primarily on inverse floating rate securities to achieve a desired effective leverage ratio. A 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 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.

*Leverage Risk.* Leverage risk is the risk associated with the use of borrowings, the issuance of preferred shares or the use of inverse floating rate securities to leverage the common shares. There can be no assurance that a Fund's leveraging strategy will be successful. Through the use of financial leverage, the Funds seek to enhance potential common share earnings over time by borrowing or issuing preferred shares at short-term municipal rates and investing at long-term municipal rates which are typically, though not always, higher. The types of leverage used by the Funds may pay fixed rates of interest or dividends or may fluctuate with short- to intermediate-term yields. The income benefit from leverage will be reduced (increased) to the extent that the difference narrows (widens) between the net earnings on a Fund's portfolio securities and its cost of leverage. If short- or intermediate-term rates rise and a Fund's leverage costs fluctuate, a 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 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, a Fund may incur losses even if the Fund has positive returns, if they are not sufficient to cover the costs of leverage. A Fund's cost of leverage includes both the interest rate paid on its borrowings or dividends on preferred shares as well as any ongoing fees and expenses associated with those borrowings or preferred shares. The Funds also bear the costs of borrowing facilities, issuing its shares and refinancing such leverage. To the extent that the Funds issue preferred shares with relatively short terms to redemption (e.g., VMTP Shares), refinancing risk will increase. If the Fund is unable to replace its leverage upon a term redemption date or other mandatory redemption of VMTP Shares, it may be forced to reduce leverage and sell portfolio securities when it otherwise would not do so. If the Fund is unable to replace existing leverage on comparable terms, its costs of leverage will increase. Accordingly, there is no assurance that the use of leverage may result in a higher yield or return to common shareholders.

A Fund's use of financial leverage also creates incremental common share net asset value risk because the full impact of price changes in the Fund's investment portfolio, including assets attributable to leverage, is borne by common shareholders. This can lead to a greater increase in net asset values in rising markets than if a Fund were not leveraged, but it also can result in a greater decrease in net asset values in declining markets. A Fund's use of financial leverage similarly can magnify the impact of changing market conditions on common share market prices. Each Fund is

required to maintain certain regulatory and rating agency asset coverage requirements in connection with its outstanding preferred shares, in order to be able to maintain the ability to declare and pay common share distributions and to maintain the rating of its preferred shares. In order to maintain required asset coverage levels, a Fund may be required to alter the composition of its investment portfolio or take other actions, such as redeeming preferred shares 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.

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

The amount of fees paid to the Adviser (which in turn pays a portion of its fees to the Sub-Adviser) for investment and advisory services will be higher when a Fund uses financial leverage because the advisory fees are calculated based on the Fund's Managed Assets; this may create an incentive for the Adviser and Sub-Adviser to leverage the Funds.

*Insurance Risk.* Each Fund may purchase municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will affect the value of those securities. Certain significant providers of insurance for municipal securities have incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such losses have reduced the insurers' capital and called into question their continued ability to perform their obligations under such insurance if they are called upon to do so in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided by the insurer, the rating of the underlying municipal security will be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a municipal security would decline and may not add any value. The insurance feature of a municipal security does not guarantee the full payment of principal and interest through the life of an insured obligation, the market value of the insured obligation or the net asset value of the common shares represented by such insured obligation.

*Tax Risk.* To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, a 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 a 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 a 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, a Fund may be required to dispose of certain assets. If these relief provisions are not available to a Fund and it fails to qualify for treatment as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to federal income tax at regular corporate rates without any deduction for distributions to shareholders, and all distributions from the Fund (including underlying distributions attributable to tax exempt interest income) would be taxable to shareholders 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 a 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 a Fund exceeded 50% of such 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 a 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 held by a Fund is normally not subject to regular federal income tax, 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 a Fund's net asset value and ability to acquire and dispose of municipal securities at desirable yield and price levels. Additionally, the Funds are not suitable investments for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are not sensitive to the federal income tax consequences of their investments.

*Taxability Risk.* Each Fund will invest in municipal securities in reliance at the time of purchase on an opinion of bond counsel to the issuer that the interest paid on those securities will be excludable from gross income for regular federal income tax purposes, and the Adviser will not independently verify that opinion. Subsequent to a Fund's acquisition of such a municipal security, however, the security may be determined to pay, or to have paid, taxable income. As a result, the treatment of dividends previously paid or to be paid by a Fund as exempt-interest dividends could be adversely affected, subjecting the Fund's shareholders to increased federal income tax liabilities. In certain circumstances, a Fund will make payments to holders of preferred shares to offset the tax effects of a taxable distribution.

Under highly unusual circumstances, the Internal Revenue Service (the "IRS") may determine that a municipal bond issued as tax-exempt should in fact be taxable. If a Fund held such a bond, it might have to distribute taxable ordinary income dividends or reclassify as taxable income amounts previously distributed as exempt-interest dividends. In addition, future legislation may change the tax treatment of municipal bond interest.

For federal income tax purposes, distributions of ordinary taxable income (including any net short-term capital gain) will be taxable to shareholders as ordinary income (and will not be eligible for favorable taxation as qualified dividend income), and capital gain dividends will be taxed at long-term capital gain rates.

*Borrowing Risk.* Each Fund may borrow money for the repurchase of its shares or for temporary or emergency purposes, such as for the payment of dividends or the settlement of portfolio transactions. Borrowing may exaggerate changes in the net asset value of a Fund's common shares and may affect a Fund's net income. When a Fund borrows money, it must pay interest and other fees, which will reduce the Fund's returns if such costs exceed the returns on the portfolio securities purchased or retained with such borrowings. Any such borrowings are intended to be temporary. However, under certain market conditions, including periods of low demand or decreased liquidity in the municipal bond market, such borrowings might be outstanding for longer periods of time.

*Inflation Risk.* Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the dividends paid to preferred shareholders may decline.

*Sector and Industry Risk.* Each Fund may invest up to 25% of its net assets in municipal securities in any one industry or in any one state of origin. In addition, subject to the concentration limits of the Fund's investment policies and guidelines, each Fund may invest a significant portion of its net assets in certain sectors of the municipal securities market, such as hospitals and other health care facilities, charter schools and other private educational facilities, special taxing districts and start-up utility districts, and private activity bonds including industrial development bonds on behalf of transportation companies such as airline companies, whose credit quality and performance may be more susceptible to economic, business, political, regulatory and other developments than other sectors of municipal issuers. If a Fund invests a significant portion of its net assets in the sectors noted above, such Fund's performance may be subject to additional risk and variability. To the extent that a Fund focuses its net assets in the hospital and healthcare facilities sector, for example, such Fund will be subject to risks associated with such sector, including adverse government regulation and reduction in reimbursement rates, as well as government approval of products and services and intense competition. Securities issued with respect to special taxing districts will be subject to various risks, including real-estate development related risks and taxpayer concentration risk. Further, the fees, special taxes or tax allocations and other revenues established to secure the obligations of securities issued with respect to special taxing districts are generally limited as to the rate or amount that may be levied or assessed and are not subject to increase pursuant to rate covenants or municipal or corporate guarantees. Charter schools and other private educational facilities are subject to various risks, including the reversal of legislation authorizing or funding charter schools, the failure to renew or secure a charter, the failure of a funding entity to appropriate necessary funds and competition from alternatives such as voucher programs. Issuers of municipal utility securities can be significantly affected by government regulation, financing difficulties, supply and demand of services or fuel and natural resource conservation. The transportation sector, including airports, airlines, ports and other transportation facilities, can be significantly affected by changes in the economy, fuel prices, labor relations, insurance costs and government regulation.

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

*Special Risks Related to Certain Municipal Obligations.* Each Fund may invest in municipal leases and certificates of participation in such leases. Municipal leases and certificates of participation involve special risks not normally associated with general obligations or revenue bonds. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset

to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of non-appropriation clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the governmental issuer is prevented from maintaining occupancy of the leased premises or utilizing the leased equipment. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and may result in a delay in recovering or the failure to fully recover a Fund's original investment. In the event of non-appropriation, the issuer would be in default and taking ownership of the assets may be a remedy available to a Fund, although each Fund does not anticipate that such a remedy would normally be pursued. To the extent that a Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. Certificates of participation, which represent interests in unmanaged pools of municipal leases or installment contracts, involve the same risks as the underlying municipal leases. In addition, a Fund may be dependent upon the municipal authority issuing the certificates of participation to exercise remedies with respect to the underlying securities. Certificates of participation also entail a risk of default or bankruptcy, both of the issuer of the municipal lease and also the municipal agency issuing the certificate of participation.

*Derivatives Risk.* Each 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 a Fund's use of derivatives is successful will depend on, among other things, if the Adviser correctly forecasts market values, interest rates and other applicable factors. If the Adviser incorrectly forecasts these and other factors, the investment performance of a 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 a Fund's ability to successfully use derivative instruments.

Each Fund may enter into debt-related derivatives instruments including credit default swap 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 the Adviser of not only of the referenced asset, rate or index, but also of the swap itself. Because they are two-party contracts and because they may have terms of greater than seven days, swap agreements may be considered to be illiquid. Moreover, a Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. It is possible that developments in the swaps market, including potential government regulation, could adversely affect a Fund's ability to terminate existing swap agreements or to realize amounts to be received under such agreements. 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 a Fund's ability to successfully use derivative instruments. See Counterparty Risk and Hedging Risk and the Reorganization SAI.

*Hedging Risk.* Each Fund's use of derivatives or other transactions to reduce risk involves costs and will be subject to the Adviser'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 the Adviser's judgment in this respect will be correct. In addition, no assurance can be given that a Fund will enter into hedging or other transactions at times or under circumstances in which it may be advisable to do so.

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

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

*Counterparty Risk.* Changes in the credit quality of the companies that serve as a 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, a Fund assumes the risk that its counterparties could experience similar financial hardships. In the event of insolvency of a counterparty, a Fund may sustain losses or be unable to liquidate a derivatives position.

*Illiquid Securities Risk.* Each Fund may invest in municipal securities and other instruments that, at the time of investment, are illiquid. Illiquid securities are securities that are not readily marketable and may include restricted securities, which are securities that may not be resold unless they have been registered under the Securities Act of 1933, as amended, or can be sold in a private transaction pursuant to an exemption from registration. Illiquid securities involve the risk that the securities will not be able to be sold at the time desired by a Fund or at prices approximating the value at which the Fund is carrying the securities on its books.

*Market Disruption Risk.* Certain events have a disruptive effect on the securities markets, such as terrorist attacks (including the terrorist attacks in the United States on September 11, 2001), war and other geopolitical events. A Fund cannot predict the effects of similar events in the future on the U.S. economy. Below-investment-grade securities tend to be more volatile than higher rated securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility of below-investment-grade securities than on higher rated securities.

*Income Risk.* A Fund's income is based primarily on the interest it earns from its investments, which can vary widely over the short-term and long-term. If interest rates drop, a Fund's income available over time to make dividend payments could drop as well if the Fund purchases securities with lower interest coupons.

*Call Risk or Prepayment Risk.* During periods of declining interest rates or for other purposes, issuers may exercise their option to prepay principal earlier than scheduled, forcing a Fund to reinvest in lower-yielding securities. This is known as call or prepayment risk.

*Reinvestment Risk.* Reinvestment risk is the risk that income from a 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 Fund's portfolio's current earnings rate. A decline in income could affect the common shares' market price or their overall returns.

*Reliance on Investment Adviser.* Each Fund is dependent upon services and resources provided by the Adviser, and therefore the Adviser's parent, Nuveen Investments. Nuveen Investments, through its own business or the financial support of its affiliates, may not be able to generate sufficient cash flow from operations or ensure that future borrowings will be available in an amount sufficient to enable it to pay its indebtedness or to fund its other liquidity needs. For additional information on the Adviser and Nuveen Investments, see Proposal No. 2 Comparison of the Acquiring Fund and the Target Fund Investment Adviser and Investment Adviser and Sub-Adviser in the Reorganization SAI.

*Certain Affiliations.* Certain broker-dealers may be considered to be affiliated persons of the Funds, the Adviser and/or Nuveen Investments. Absent an exemption from the SEC or other regulatory relief, a Fund generally is precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker, or to utilize affiliated brokers for agency transactions, is subject to restrictions. This could limit a Fund's ability to engage in securities transactions and take advantage of market opportunities.

*Anti-Takeover Provisions.* Each Fund's organizational documents 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.

## **C. INFORMATION ABOUT THE REORGANIZATION**

### **General**

The Board of Nuveen's municipal closed-end funds has approved a series of mergers of municipal closed-end funds, including the Reorganization with respect to the Acquiring Fund and the Target Fund. As noted above, the Acquiring Fund and the Target Fund have similar investment objectives and policies and substantially similar portfolio compositions. With respect to the proposed Reorganization, it is intended that the combination of the Funds will enhance the secondary trading market for common shares of the Funds and will result in lower total operating expenses per common share (excluding the cost of leverage) as a result of the increased size of the combined fund. In order for the Reorganization to occur, each Fund must obtain all requisite shareholder approvals as well as certain consents, confirmations and/or waivers from various third parties, including rating agencies with respect to preferred shares. Because the closing of the Reorganization is contingent on the Target Fund and the Acquiring Fund obtaining the requisite shareholder approvals and satisfying (or obtaining the waiver of) their other closing conditions, it is possible that the Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions. If the requisite shareholder approvals are not obtained, the Board of each Fund may take such actions as it deems in the best interests of its Fund, including conducting additional solicitations with respect to the proposals or continuing to operate the Fund as a stand-alone fund.

### Terms of the Reorganization

*General.* The Agreement and Plan of Reorganization by and between the Target Fund and the Acquiring Fund (the Agreement), in the form attached as Appendix A, provides for: (i) the Acquiring Fund's acquisition of substantially all of the assets of the Target Fund in exchange for newly issued common shares of the Acquiring Fund, par value \$0.01 per share, and newly issued VMTP Shares of the Acquiring Fund, with a par value of \$0.01 per share and a liquidation preference of \$100,000 per share, and the Acquiring Fund's assumption of substantially all of the liabilities of the Target Fund; and (ii) the distribution of the Acquiring Fund common shares and Acquiring Fund VMTP Shares received by the Target Fund to its common and preferred shareholders, respectively, as part of the liquidation, dissolution and termination of the Target Fund in accordance with applicable law. No fractional Acquiring Fund common shares will be issued to the Target Fund's common shareholders in connection with the Reorganization and, in lieu of such fractional shares, the Target Fund's common shareholders will receive cash in an amount equal to the value received for such shares in the open market, which may be higher or lower than net asset value. Preferred shareholders of the Target Fund will receive the same number of Acquiring Fund VMTP Shares having substantially identical terms as the outstanding preferred shares of the Target Fund held by such preferred shareholders immediately prior to the Reorganization. The aggregate liquidation preference of the Acquiring Fund preferred shares received in the Reorganization will equal the aggregate liquidation preference of the Target Fund preferred shares held immediately prior to the Reorganization. Preferred shares issued by the Acquiring Fund in connection with the Reorganization will have equal priority with the Acquiring Fund's other outstanding preferred shares as to the payment of dividends and the distribution of assets in the event of the Acquiring Fund's liquidation. In addition, the preferred shares of the Acquiring Fund, including the Acquiring Fund preferred shares to be issued in the Reorganization, will be senior in priority to the Acquiring Fund's common shares as to the payment of dividends and distribution of assets in the event of the Acquiring Fund's liquidation.

As a result of the Reorganization, the assets of the Acquiring Fund and the Target Fund would be combined, and the shareholders of the Target Fund would become shareholders of the Acquiring Fund. The closing date is expected to be on or about June 10, 2013 or such other date as the parties may agree (the Closing Date). Following the Reorganization, the Target Fund would terminate its registration as an investment company under the 1940 Act. The Acquiring Fund will continue to operate after the Reorganization as a registered closed-end management investment company with the investment objectives and policies described in this Joint Proxy Statement/Prospectus.

The aggregate net asset value of Acquiring Fund common shares received by the Target Fund in the Reorganization will equal the aggregate net asset value of Target Fund common shares held by shareholders of the Target Fund immediately prior to the Reorganization. See Proposal No. 2 Information About the Reorganization Description of Common Shares Issued by the Acquiring Fund for a description of the rights of Acquiring Fund common shareholders. No fractional Acquiring Fund common shares, however, will be issued in connection with the Reorganization. The Acquiring Fund's transfer agent will aggregate all fractional Acquiring Fund common shares that may be due to Target Fund shareholders as of the Closing Date and will sell the resulting whole shares for the account of holders of all such fractional interests at a value that may be higher or lower than net asset value, and each such holder will be entitled to a pro rata share of the proceeds from such sale. With respect to the aggregation and sale of fractional common shares, the Acquiring Fund's transfer agent will act directly on behalf of the shareholders entitled to receive fractional shares and will accumulate fractional shares, sell the shares and distribute the cash proceeds net of brokerage commissions, if any, directly to shareholders entitled to receive the fractional shares (without interest and subject to

withholding taxes). For federal income tax purposes, shareholders will be treated as if they received fractional share interests and then sold such interests for cash. The holding period and the aggregate tax basis of fractional share interests deemed received by a shareholder will be the same as the holding period and aggregate tax basis of the Target Fund common shares previously held by the shareholder and exchanged therefor, provided the Target Fund shares exchanged therefor were held as capital assets. As a result of the Reorganization, common shareholders of the Funds will hold reduced percentages of ownership in the larger combined entity than they held in the Acquiring Fund or Target Fund individually.

Following the Reorganization, each preferred shareholder of the Target Fund would own the same number of Acquiring Fund VMTP Shares as the VMTP Shares of the Target Fund held by such shareholder immediately prior to the Closing Date, with substantially identical terms, as of the closing of the Reorganization, to the Target Fund preferred shares for which they were exchanged. As a result of the Reorganization, preferred shareholders of the Funds would hold reduced voting percentages of preferred shares for matters to be voted on by all preferred shareholders as a single class or by common and preferred shareholders voting together than they held in the Acquiring Fund or Target Fund individually.

*Valuation of Assets and Liabilities.* If the Reorganization is approved and the other closing conditions are satisfied or waived, the value of the net assets of the Target Fund will be the value of its assets, less its liabilities, computed as of the close of regular trading on the NYSE on the business day immediately prior to the Closing Date (such time and date being hereinafter called the "Valuation Time"). The value of the Target Fund's assets shall be determined by using the valuation procedures of the Nuveen closed-end funds adopted by the Board or such other valuation procedures as shall be mutually agreed upon by the parties. The value of the Target Fund's net assets will be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding Target Fund preferred shares.

*Distributions.* Undistributed net investment income represents net earnings from a Fund's investment portfolio that over time have not been distributed to shareholders. Under the terms of the Agreement, if the Target Fund has undistributed net investment income or undistributed net capital gains, the Target Fund is required to declare a distribution, which, together with all previous dividends have the effect of distributing to its shareholders all undistributed net investment income and undistributed realized net capital gains (after reduction by any available capital loss carryforwards) for all taxable periods ending on or before the Closing Date. The Acquiring Fund is not subject to a similar distribution requirement; however, it is anticipated that the Acquiring Fund will declare a distribution prior to the Closing Date which will result in the distribution of a portion of its undistributed net investment income. Consequently, Target Fund shareholders effectively will purchase a pro rata portion of the Acquiring Fund's remaining undistributed net investment income and undistributed realized net capital gains, if any, which may be more or less than the Target Fund's undistributed net investment income and undistributed realized net capital gains per share immediately preceding the distributions described above, if any. As a result, the Acquiring Fund's existing shareholders will experience a corresponding reduction in their respective portion of undistributed net investment income and undistributed realized net capital gains per share, if any, such that the Acquiring Fund's undistributed net investment income and undistributed realized net capital gains per share immediately following the Reorganization is expected to be less than the Acquiring Fund's undistributed net investment income and undistributed realized net capital gains per share immediately preceding the Reorganization, if any.

*Amendments.* Under the terms of the Agreement, the Agreement may be amended, modified, or supplemented in such manner as may be mutually agreed upon in writing by each Fund as specifically authorized by each Fund's Board; provided, however, that following the meeting of the shareholders of the Funds called by each Fund, no such amendment, modification or supplement may have the effect of changing the provisions for determining the number of Acquiring Fund shares to be issued to the Target Fund's shareholders under the Agreement to the detriment of such shareholders without their further approval.

*Conditions.* Under the terms of the Agreement, the closing of the Reorganization is conditioned upon (a) the requisite approval by the shareholders of each Fund of the proposals in this Joint Proxy Statement/Prospectus, (b) the Funds' receipt of an opinion substantially to the effect that the Reorganization will qualify as a reorganization under the Code (See Material Federal Income Tax Consequences of the Reorganization ), (c) the absence of legal proceedings challenging the Reorganization and (d) the Funds' receipt of certain customary certificates and legal opinions. Additionally, in order for the Reorganization to occur, each Fund must obtain certain consents, confirmations and/or waivers from various third parties, including rating agencies with respect to outstanding preferred shares.

*Termination.* The Agreement may be terminated by the mutual agreement of the parties and such termination may be effected by each Fund's Chief Administrative Officer or a Vice President without further action by the Board. In addition, any Fund may at its option terminate the Agreement at or before the Closing Date due to (a) a breach by any other party of any representation, warranty, or agreement contained therein to be performed at or before the Closing Date, if not cured within 30 days; (b) a condition precedent to the obligations of the terminating party that has not been met and it reasonably appears it will not or cannot be met; or (c) a determination by its Board that the consummation of the transactions contemplated by the Agreement is not in the best interests of the Fund.

### **Reasons for the Reorganization**

Based on the considerations below, the Board of each Fund, including the Board Members who are not interested persons (as defined in the 1940 Act) of the Funds (the Independent Board Members ), has determined that the Reorganization would be in the best interests of its Fund and that the interests of the existing shareholders of the Fund would not be diluted with respect to net asset value as a result of the Reorganization. The Boards approved the Reorganization and recommended that shareholders of the respective Funds approve the Reorganization.

In preparation for a meeting of the Boards held on December 13, 2012 (the Meeting ) at which the Reorganization was considered, the Adviser provided the Boards, prior to the Meeting and in prior meetings, with information regarding the proposed Reorganization, including the rationale therefor and alternatives considered to the Reorganization. Prior to approving the Reorganization, the Independent Board Members reviewed the foregoing information with their independent legal counsel and with management, reviewed with independent legal counsel applicable law and their duties in considering such matters, and met with independent legal counsel in a private session without management present. The Boards considered a number of principal factors presented at the time of the Meeting or prior meetings in reaching their determinations, including the following:

the compatibility of the Funds' investment objectives, policies and related risks;

consistency of portfolio management;

improved economies of scale and the potential for lower total expenses (excluding the costs of leverage);

the potential for improved secondary market trading with respect to the common shares;

the anticipated tax-free nature of the Reorganization;

the expected costs of the Reorganization;

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

the effect of the Reorganization on shareholder rights; and

any potential benefits of the Reorganization to the Adviser and its affiliates as a result of the Reorganization.

*Compatibility of Investment Objectives, Policies and Related Risks.* Based on the information presented, the Boards noted that the investment objectives, policies and risks of the Funds are similar. The Boards noted that each Fund is a diversified fund that invests primarily in municipal securities the income from which is exempt from regular federal income tax. Each Fund invests at least 50% of its Managed Assets in investment-grade-quality municipal securities. The Boards considered that the portfolio composition of each Fund is substantially similar and considered the impact of the Reorganization on each Fund's portfolio, including any shifts in sector allocations, credit ratings, duration, yield and leverage costs. The Boards also recognized that each Fund utilizes leverage. Because the Funds have similar investment strategies, the principal risks of each Fund are also similar.

*Consistency of Portfolio Management.* The Boards noted that each Fund has the same investment adviser, sub-adviser and portfolio manager, and that such portfolio manager would continue to manage the Acquiring Fund upon completion of the Reorganization. Through the Reorganization, the Boards recognized that shareholders will remain invested in a closed-end management investment company that will have greater net assets and benefits from potential economies of scale; the same investment adviser and sub-adviser; and similar investment objectives and investment strategies.

*Improved Economies of Scale and Potential for Lower Total Expenses (Excluding the Costs of Leverage).* The Boards considered the fees and expense ratios of each of the Funds (including estimated expenses of the Acquiring Fund following the Reorganization). As a result of the greater economies of scale from the larger asset size of the Acquiring Fund after the Reorganization, the Boards noted that it was expected that the total expenses per common share (excluding the costs of leverage) of the combined fund would be lower than that of the Acquiring Fund and the Target Fund prior to the Reorganization. It is anticipated that the Funds will benefit from the larger asset size as fixed costs are shared over a larger asset base. In addition, as each Fund utilizes leverage, the Boards considered the differences in the costs of leverage between the Funds and the impact of the Reorganization on such costs. In this connection, the Boards noted the Adviser's position that the greater asset size of the combined fund may provide greater flexibility in managing the structure and costs of leverage over time.

*Potential for Improved Secondary Market Trading with Respect to the Common Shares.* While it is not possible to predict trading levels at the time the Reorganization closes, the Boards noted that the Reorganization is being proposed, in part, to seek to enhance the secondary trading market for the common shares of the Funds. The Boards considered that the potential for higher common share net earnings and enhanced total returns over time, in each case from operating expense savings, may increase investor interest in the combined fund which would result in increased market liquidity. The Acquiring Fund's greater share volume may result in increased market liquidity after the Reorganization, which may lead to narrower bid-ask spreads and smaller trade-to-trade price movements.

*Anticipated Tax-Free Reorganization.* The Reorganization will be structured with the intention that it qualify as a tax-free reorganization for federal income tax purposes, and the Funds will obtain an opinion of counsel substantially to this effect (based on certain factual representations and certain customary assumptions).

*Expected Costs of the Reorganization.* The Boards considered the terms and conditions of the Agreement, including the estimated costs associated with the Reorganization and the allocation of such costs between the Acquiring Fund and the Target Fund. The Boards noted, however, that, assuming the Reorganization is consummated, the Adviser anticipated that the projected costs of the Reorganization may be recovered over time for the common shareholders and that preferred shareholders will not bear any costs of the Reorganization.

*Terms of the Reorganization and Impact on Shareholders.* The terms of the Reorganization are intended to avoid dilution of the interests with respect to net asset value of the existing shareholders of the Funds. In this regard, the Boards considered that each holder of common shares of the Target Fund will receive common shares of the Acquiring Fund (taking into account any fractional shares to which the shareholder would be entitled) equal to the aggregate per share net asset value of that shareholder's Target Fund common shares held immediately prior to the Reorganization. No fractional common shares of the Acquiring Fund, however, will be issued to shareholders in connection with the Reorganization and, in lieu of such fractional shares, the Target Fund's common shareholders will receive cash.

Preferred shareholders of the Target Fund will receive the same number of Acquiring Fund VMTP Shares having substantially identical terms as the outstanding preferred shares of the Target Fund held by such preferred shareholders immediately prior to the Reorganization. The aggregate liquidation preference of the Acquiring Fund preferred shares received in the Reorganization will equal the aggregate liquidation preference of the Target Fund preferred shares held immediately prior to the Reorganization.

*Potential Benefits to Nuveen Fund Advisors and Affiliates.* The Boards recognized that the Reorganization may result in some benefits and economies for the Adviser and its affiliates. These may include, for example, a reduction in the level of operational expenses incurred for administrative, compliance and portfolio management services as a result of the elimination of the Target Fund as a separate fund in the Nuveen complex.

*Conclusion.* Each Board, including the Independent Board Members, approved the Reorganization, concluding that the Reorganization is in the best interests of its Fund and that the interests of existing shareholders of the Fund will not be diluted with respect to net asset value as a result of the Reorganization.

**Capitalization**

The following table sets forth the unaudited capitalization of the Funds as of October 31, 2012, adjusted to reflect the issuance of VMTP Shares in December 2012, and the pro-forma combined capitalization of the combined fund as if the Reorganization had occurred on October 31, 2012. The table reflects a pro forma exchange ratio of approximately 0.96806999 common shares of the Acquiring Fund issued for each common share of the Target Fund. If the Reorganization is consummated, the actual exchange ratio may vary.

|   | Acquiring<br>Fund | Acquiring Fund<br>Leverage<br>Adjustments | Target<br>Fund | Target Fund<br>Leverage<br>Adjustments | Pro<br>Forma<br>Adjustments | Combined<br>Fund Pro<br>Forma <sup>(1)</sup> |
|---|-------------------|---|----------------|--|-----------------------------|--|
| Variable Rate MuniFund Term Preferred (VMTP) Shares, \$100,000 stated value per share, at liquidation value; no shares outstanding for Acquiring Fund; 510 shares outstanding for Acquiring Fund adjusted; no shares outstanding for Target Fund; 360 shares outstanding for Target Fund adjusted; and 870 shares outstanding for Combined Fund Pro Forma | \$                | \$ 51,000,000                             | \$             | \$ 36,000,000                          | \$                          | \$ 87,000,000                                |



|  | Acquiring Fund        | Acquiring Fund Leverage Adjustments | Target Fund           | Target Fund Leverage Adjustments | Pro Forma Adjustments     | Combined Fund Pro Forma <sup>(1)</sup> |
|--|-----------------------|-------------------------------------|-----------------------|----------------------------------|---------------------------|--|
| <b>Common Shareholders Equity:</b>   |                       |                                     |                       |                                  |                           |  |
| Common Shares, \$.01 par value per share; 29,931,013 shares outstanding for Acquiring Fund; 18,588,534 shares outstanding for Target Fund; and 47,926,015 shares outstanding for Combined Fund Pro Forma | \$ 299,310            |                                     | \$ 185,885            |                                  | \$ (5,935) <sup>(2)</sup> | \$ 479,260                             |
| Paid-in surplus  | 410,710,451           |                                     | 258,265,621           |                                  | (664,065) <sup>(3)</sup>  | 668,312,007                            |
| Undistributed (Over-distribution of) net investment income   | 841,407               |                                     | 843,673               |                                  | (11,755) <sup>(4)</sup>   | 1,673,325                              |
| Accumulated net realized gain (loss)   | (50,607,147)          |                                     | (41,530,537)          |                                  |                           | (92,137,684)                           |
| Net unrealized appreciation (depreciation)   | 41,328,926            |                                     | 24,871,099            |                                  |                           | 66,200,025                             |
| <b>Net assets attributable to common shares</b>  | <b>\$ 402,572,947</b> |                                     | <b>\$ 242,635,741</b> |                                  | <b>\$ (681,755)</b>       | <b>\$ 644,526,933</b>                  |
| Net asset value per common share outstanding (net assets attributable to common shares, divided by common shares outstanding)  | \$ 13.45              |                                     | \$ 13.05              |                                  |                           | \$ 13.45                               |
| <b>Authorized shares:</b>  |                       |                                     |                       |                                  |                           |  |
| Common   | Unlimited             |                                     | Unlimited             |                                  |                           | Unlimited                              |
| Preferred  | Unlimited             |                                     | Unlimited             |                                  |                           | Unlimited                              |

- (1) The pro forma balances are presented as if the Reorganization were effective as of October 31, 2012, and are presented for informational purposes only. The actual Closing Date of the Reorganization is expected to be on or about June 10, 2013, or such later time agreed to by the parties at which time the results would be reflective of the actual composition of shareholders' equity as of that date.
- (2) Assumes the issuance of 17,995,002 Acquiring Fund common shares in exchange for the net assets of the Target Fund. These numbers are based on the net asset value of the Acquiring Fund and Target Funds as of October 31, 2012, adjusted for estimated Reorganization costs, the effect of the required sale of securities and distributions, if any.
- (3) Includes the impact of estimated total Reorganization costs of \$670,000, which will be borne by the common shareholders of the Acquiring Fund and Target Fund in the amounts of \$50,000 and \$620,000, respectively.
- (4) Assumes the Target Fund makes a net investment income distribution of \$11,755.

#### Expenses Associated with the Reorganization

In evaluating the Reorganization, management of the Funds estimated the amount of expenses the Funds would incur to be approximately \$670,000, which includes additional stock exchange listing

fees, SEC registration fees, legal and accounting fees, proxy solicitation and distribution costs and other related administrative or operational costs. The expenses of the Reorganization (whether or not consummated) will be allocated between the Funds ratably based on the relative expected benefits of the Reorganization comprised of forecasted cost savings and distribution increases, if any, to each Fund during the first year following the Reorganization. Reorganization expenses have been or will be accrued as expenses of each Fund prior to the Valuation Time. These estimated expenses will be borne by the Acquiring Fund and Target Fund in the amounts of \$50,000 (0.01%) and \$620,000 (0.28%), respectively. Preferred shareholders of the Funds will not bear any costs of the Reorganization.

Additional solicitation may be made by letter or telephone by officers or employees of Nuveen Investments or the Adviser, or by dealers and their representatives. The Funds have engaged Computershare Fund Services to assist in the solicitation of proxies at an estimated aggregate cost of \$10,500 per Fund plus reasonable expenses, which is included in the foregoing estimate.

#### **Dissenting Shareholders Rights of Appraisal**

Under the charter documents of each Fund, shareholders of the Fund do not have dissenters rights of appraisal with respect to the Reorganization.

#### **Material Federal Income Tax Consequences of the Reorganization**

As a condition to each Fund's obligation to consummate the Reorganization, each Fund will receive a tax opinion from Vedder Price P.C. (which opinion will be based on certain factual representations and certain customary assumptions) with respect to the Reorganization substantially to the effect that, on the basis of the existing provisions of the Code, current administrative rules and court decisions, for federal income tax purposes:

1. The transfer of substantially all of the assets of the Target Fund to the Acquiring Fund in exchange solely for Acquiring Fund shares and the assumption by the Acquiring Fund of substantially all of the liabilities of the Target Fund, followed by the distribution to the Target Fund shareholders of all the Acquiring Fund shares received by the Target Fund in complete liquidation of the Target Fund will constitute a reorganization within the meaning of Section 368(a) of the Code, and the Acquiring Fund and the Target Fund will each be a party to a reorganization, within the meaning of Section 368(b) of the Code, with respect to the Reorganization.
2. No gain or loss will be recognized by the Acquiring Fund upon the receipt of substantially all of the assets of the Target Fund solely in exchange for Acquiring Fund shares and the assumption by the Acquiring Fund of substantially all of the liabilities of the Target Fund.
3. No gain or loss will be recognized by the Target Fund upon the transfer of substantially all of the Target Fund's assets to the Acquiring Fund solely in exchange for Acquiring Fund shares and the assumption by the Acquiring Fund of substantially all of the liabilities of the Target Fund or upon the distribution (whether actual or constructive) of all such Acquiring Fund shares to the Target Fund shareholders solely in exchange for such shareholders' shares of the Target Fund in complete liquidation of the Target Fund.

4. No gain or loss will be recognized by the Target Fund shareholders upon the exchange of their Target Fund shares solely for Acquiring Fund shares in the Reorganization, except with respect to any cash received in lieu of a fractional Acquiring Fund common share.
5. The aggregate basis of the Acquiring Fund shares received by each Target Fund shareholder pursuant to the Reorganization (including any fractional Acquiring Fund common share to which a shareholder would be entitled) will be the same as the aggregate basis of the Target Fund shares exchanged therefor by such shareholder. The holding period of the Acquiring Fund shares received by each Target Fund shareholder (including any fractional Acquiring Fund common share to which a shareholder would be entitled) will include the period during which the Target Fund shares exchanged therefor were held by such shareholder, provided such Target Fund shares are held as capital assets at the time of the Reorganization.
6. The basis of the Target Fund's assets transferred to the Acquiring Fund will be the same as the basis of such assets to the Target Fund immediately before the Reorganization. The holding period of the assets of the Target Fund in the hands of the Acquiring Fund will include the period during which those assets were held by the Target Fund.

In addition, K&L Gates LLP, as special tax counsel to the Acquiring Fund, will deliver an opinion to the Acquiring Fund, subject to certain representations, assumptions and conditions, substantially to the effect that the Acquiring Fund VMTP Shares received in the Reorganization by the holders of VMTP Shares of the Target Fund will qualify as equity in the Acquiring Fund for federal income tax purposes.

No opinion will be expressed as to (1) the effect of the Reorganization on (A) the Target Fund, the Acquiring Fund or any Target Fund shareholder with respect to any asset as to which any unrealized gain or loss is required to be recognized under federal income tax principles (i) at the end of a taxable year (or on the termination thereof) or (ii) upon the transfer of such asset regardless of whether such transfer would otherwise be a non-taxable transaction under the Code, or (B) the Target Fund, the Acquiring Fund or any Target Fund shareholder with respect to any stock held in a passive foreign investment company as defined in Section 1297(a) of the Code or (2) any other federal tax issues (except those set forth above) and all state, local or foreign tax issues of any kind.

If a Target Fund shareholder receives cash in lieu of a fractional Acquiring Fund share, the shareholder will be treated as having received the fractional Acquiring Fund share pursuant to the Reorganization and then as having sold that fractional Acquiring Fund share for cash. As a result, each such Target Fund shareholder generally will recognize gain or loss equal to the difference between the amount of cash received and the basis in the fractional Acquiring Fund share to which the shareholder is entitled. This gain or loss generally will be a capital gain or loss and generally will be long-term capital gain or loss if, as of the effective time of the Reorganization, the holding period for the shares (including the holding period of Target Fund shares surrendered therefor if such Target Fund Shares were held as capital assets at the time of the Reorganization) is more than one year. The deductibility of capital losses is subject to limitations. Any cash received in lieu of a fractional share may be subject to backup withholding taxes.

Prior to the Valuation Time, the Target Fund will declare a distribution to its common shareholders, which together with all previous distributions to preferred and common shareholders,

will have the effect of distributing to shareholders all its net investment income and realized net capital gains (after reduction by any available capital loss carryforwards), if any, through the date of the Reorganization. To the extent distributions are attributable to ordinary taxable income or capital gains, the distribution will be taxable to shareholders for federal income tax purposes. Each Fund designates distributions to common and preferred shareholders as consisting of particular types of income (such as exempt interest, ordinary income and capital gain) based on each class' proportionate share of the total distributions paid by the Fund during the year. Additional distributions may be made if necessary. All dividends and distributions will be paid in cash unless a shareholder has made an election to reinvest dividends and distributions in additional shares under the Target Fund's dividend reinvestment plan. Dividends and distributions are treated the same for federal income tax purposes whether received in cash or additional shares.

After the Reorganization, the combined fund's ability to use the Target Fund's or the Acquiring Fund's pre-Reorganization capital losses may be limited under certain federal income tax rules applicable to reorganizations of this type. Therefore, in certain circumstances, shareholders may pay federal income taxes sooner, or pay more federal income taxes, than they would have had the Reorganization not occurred. The effect of these potential limitations, however, will depend on a number of factors including the amount of the losses, the amount of gains to be offset, the exact timing of the Reorganization and the amount of unrealized capital gains in the Funds at the time of the Reorganization. As of October 31, 2012, the Funds had capital loss carryforwards as follows:

|                            | <b>Acquiring<br/>Fund</b> | <b>Target<br/>Fund</b> |
|----------------------------|---------------------------|------------------------|
| Capital loss carryforwards | \$ 46,740,988             | \$ 34,796,597          |

If not applied, the capital loss carryforwards will expire as follows:

|                  | <b>Acquiring<br/>Fund</b> | <b>Target<br/>Fund</b> |
|------------------|---------------------------|------------------------|
| Expiration Date: |                           |                        |
| October 31, 2016 | \$ 12,119,476             | \$ 4,564,842           |
| October 31, 2017 | \$ 34,412,364             | \$ 28,536,506          |
| October 31, 2018 | \$ 209,148                | \$ 541,658             |
| October 31, 2019 |                           | \$ 1,153,591           |

For net capital losses arising in taxable years beginning after December 22, 2010 ( post-enactment losses ), a Fund will generally be able to carryforward such capital losses indefinitely. A Fund's net capital losses from taxable years beginning on or prior to December 22, 2010, however, will remain subject to their current expiration dates and can be used only after the post-enactment losses.

In addition, the shareholders of the Target Fund will receive a proportionate share of any taxable income and gains realized by the Acquiring Fund and not distributed to its shareholders prior to the Reorganization when such income and gains are eventually distributed by the Acquiring Fund. As a result, shareholders of the Target Fund may receive a greater amount of taxable distributions than they would have had the Reorganization not occurred.

This description of the federal income tax consequences of the Reorganization is made without regard to the particular facts and circumstances of any shareholder. Shareholders are urged to consult their own tax advisers as to the specific consequences to them of the Reorganization, including the applicability and effect of state, local, non-U.S. and other tax laws.

The foregoing is intended to be only a summary of the principal federal income tax consequences of the Reorganization and should not be considered to be tax advice. There can be no assurance that the Internal Revenue Service will concur on all or any of the issues discussed above. Shareholders are urged to consult their own tax advisers regarding the federal, state and local tax consequences with respect to the foregoing matters and any other considerations which may be applicable to them.

### **Votes Required**

The Reorganization is required to be approved by the affirmative vote of the holders of a majority (more than 50%) of the outstanding shares of the Target Fund's common shares and preferred shares entitled to vote on the matter, voting as a single class, and by the affirmative vote of the holders of a majority (more than 50%) of the Target Fund's outstanding preferred shares entitled to vote on the matter, voting as a separate class. The Reorganization also is required to be approved by the affirmative vote of the holders of a majority (more than 50%) of the Acquiring Fund's outstanding preferred shares entitled to vote on the matter, voting as a separate class. Preferred shareholders are being solicited separately on the foregoing proposals through a separate proxy statement and not through this Joint Proxy Statement/Prospectus. In addition, the Acquiring Fund's common shareholders entitled to vote on the matter, voting separately, and the Acquiring Fund's common and preferred shareholders entitled to vote on the matter, voting together as a single class, are being asked to approve the issuance of additional common shares of the Acquiring Fund in connection with the Reorganization. See Proposal No. 3 Approval of Issuance of Additional Common Shares of Acquiring Fund for a description of the votes required for such share issuance.

Abstentions and broker non-votes will have the same effect as a vote against the approval of the Reorganization. Broker non-votes are shares held by brokers or nominees for which the brokers or nominees have executed proxies as to which (i) the broker or nominee does not have discretionary voting power and (ii) the broker or nominee has not received instructions from the beneficial owner or other person who is entitled to instruct how the shares will be voted.

Preferred shareholders of each Fund are separately being asked to approve the Agreement as a plan of reorganization under the 1940 Act. Section 18(a)(2)(D) of the 1940 Act provides that the terms of preferred shares issued by a registered closed-end management investment company must contain provisions requiring approval by the vote of a majority of such shares, voting as a class, of any plan of reorganization adversely affecting such shares. The 1940 Act makes no distinction between a plan of reorganization that has an adverse effect as opposed to a materially adverse effect. While the respective Boards do not believe that the Funds' preferred shareholders would be materially adversely affected by the Reorganization, it is possible that there may be insignificant adverse effects (such as where the asset coverage with respect to the Acquiring Fund VMTP Shares issued pursuant to the Reorganization is slightly more or less than the asset coverage with respect to the shares of Target Fund VMTP Shares for which they are exchanged). Each Fund is seeking approval of the Agreement by the holders of that Fund's preferred shares.

In order for the Reorganization to occur, each Fund must obtain the requisite shareholder approvals as well as certain consents, confirmations and/or waivers from various third parties, including rating agencies with respect to preferred shares. Because the closing of the Reorganization is contingent on the Target Fund and the Acquiring Fund satisfying (or obtaining the waiver of) their respective closing conditions, if one of the Funds does not obtain its requisite shareholder approvals or

satisfy its closing conditions, it is possible that the Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions. VMTP Shares were issued on a private placement basis to one or a small number of institutional holders. To the extent that one or more preferred shareholders of a Fund owns, holds or controls, individually or in the aggregate, all or a significant portion of a Fund's outstanding preferred shares, one or more shareholder approvals required for the Reorganization may turn on the exercise of voting rights by such particular shareholder(s) and its or their determination as to the favorable view of such proposal(s) with respect to its or their interests. The Funds exercise no influence or control over the determinations of such shareholders with respect to the proposals; there is no guarantee that such shareholders will approve the proposals over which they may exercise effective disposition power. If the requisite shareholder approvals are not obtained, each Fund's Board may take such actions as it deems in the best interests of its Fund, including conducting additional solicitations with respect to the proposals or continuing to operate the Fund as a stand-alone fund.

#### **Description of Common Shares to be Issued by the Acquiring Fund; Comparison to Target Fund**

##### ***General***

As a general matter, the common shares of the Acquiring Fund and the Target Fund have equal voting rights and equal rights with respect to the payment of dividends and the distribution of assets upon liquidation with respect to their respective Fund and have no preemptive, conversion or exchange rights or rights to cumulative voting. Holders of whole common shares of each Fund are entitled to one vote per share on any matter on which the shares are entitled to vote, while each fractional share is entitled to a proportional fractional vote. Furthermore, the provisions set forth in the Acquiring Fund's declaration of trust are substantially similar to the provisions of the Target Fund's declaration of trust and each contains, among other things, similar super-majority voting provisions, as described under Additional Information about the Funds Certain Provisions in the Acquiring Fund's Declaration of Trust and By-Laws. The full text of each Fund's declaration of trust is on file with the SEC and may be obtained as described on page v.

The Acquiring Fund's declaration of trust authorizes an unlimited number of common shares, par value \$0.01 per share. If the Reorganization is consummated, the Acquiring Fund will issue additional common shares on the Closing Date to the common shareholders of the Target Fund based on the relative per share net asset value of the Acquiring Fund and the net asset values of the assets of the Target Fund that are transferred in the Reorganization, in each case as of the Valuation Time. The value of a Fund's net assets shall be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all the Fund's outstanding preferred shares.

The terms of the Acquiring Fund common shares to be issued pursuant to the Reorganization will be identical to the terms of the Acquiring Fund common shares that are then outstanding. Acquiring Fund common shares have equal rights with respect to the payment of dividends and the distribution of assets upon liquidation. The Acquiring Fund common shares, when issued, will be fully paid and non-assessable and have no preemptive, conversion or exchange rights or rights to cumulative voting. See also Summary Description of Massachusetts Business Trusts.

### ***Distributions***

As a general matter, each Fund has a monthly distribution policy and each Fund seeks to maintain a stable level of distributions. Each Fund's present policy, which may be changed by its Board, is to make regular monthly cash distributions to holders of its common shares at a level rate (stated in terms of a fixed cents per common share dividend rate) that reflects the past and projected performance of the Fund.

The Acquiring Fund's ability to maintain a level dividend rate will depend on a number of factors, including the rate at which dividends are payable on the preferred shares. The net income of the Acquiring Fund generally consists of all interest income accrued on portfolio assets less all expenses of the Fund. Expenses of the Acquiring Fund are accrued each day. Over time, all the net investment income of the Acquiring Fund will be distributed. At least annually, the Acquiring Fund also intends to effectively distribute net capital gain and ordinary taxable income, if any, after paying any accrued dividends or making any liquidation payments to preferred shareholders. Although it does not now intend to do so, the Board may change the Acquiring Fund's dividend policy and the amount or timing of the distributions based on a number of factors, including the amount of the Fund's undistributed net investment income and historical and projected investment income and the amount of the expenses and dividend rates on the outstanding preferred shares.

As explained more fully below, at least annually, the Acquiring 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 income tax law, common shareholders of record as of the end of the Acquiring Fund's taxable year will include their share of the retained net capital gain in their income for the year as a long-term capital gain (regardless of their holding period in the common shares), and will be entitled to an income tax credit or refund for the federal income tax deemed paid on their behalf by the Acquiring Fund. See *Federal Income Tax Matters Associated with Investment in the Acquiring Fund* under *Additional Information About the Acquiring Fund* below and *Federal Income Tax Matters* in the Reorganization SAI.

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

### ***Dividend Reinvestment Plan***

Generally, the terms of the dividend reinvestment plan (the *Plan*) for the Acquiring Fund and Target Fund are identical. Under the Acquiring Fund's Plan, you may elect to have all dividends, including any capital gain distributions, on your common shares automatically reinvested by State Street Bank and Trust Company (the *Plan Agent*) in additional common shares under the Plan. You may elect to participate in the Plan by completing the Dividend Reinvestment Plan Application Form. If you do not participate, you will receive all distributions in cash paid by check mailed directly to you by State Street Bank and Trust Company as dividend paying agent.

If you decide to participate in the Plan of the Acquiring Fund, the number of common shares you will receive will be determined as follows:

- (1) If common shares are trading at or above net asset value at the time of valuation, the Acquiring Fund will issue new shares at the then current market price; or
- (2) If common shares are trading below net asset value at the time of valuation, the Plan Agent will receive the dividend or distribution in cash and will purchase common shares in the open market, on the exchange on which the common shares are listed, for the participants accounts. It is possible that the market price for the common shares may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price at the time of valuation, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in common shares issued by the Acquiring Fund. The Plan Agent will use all dividends and distributions received in cash to purchase common shares in the open market within 30 days of the valuation date. Interest will not be paid on any uninvested cash payments.

If the Plan Agent begins purchasing Acquiring Fund shares on the open market while shares are trading below net asset value, but the Fund's shares subsequently trade at or above their net asset value before the Plan Agent is able to complete its purchases, the Plan Agent may cease open-market purchases and may invest the uninvested portion of the distribution in newly issued Fund shares at a price equal to the greater of the shares' net asset value or 95% of the shares' market value.

You may withdraw from the Plan at any time by giving written notice to the Plan Agent. If you withdraw or the Plan is terminated, you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus brokerage commissions and a \$2.50 service fee.

The Plan Agent maintains all shareholders' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common shares in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all common shares you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in common shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due on dividends and distributions.

The Acquiring Fund reserves the right to amend or terminate the Plan if in the judgment of the Board of the Acquiring Fund the change is warranted. There is no direct service charge to participants in the Plan; however, the Acquiring Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained from State Street Bank and Trust Company, Attn: Computershare Nuveen Investments, P.O. Box 43071, Providence, Rhode Island 02940-3071, (800) 257-8787.



**Common Share Price Data**

The following tables show for the periods indicated: (i) the high and low sales prices for common shares reported as of the end of the day on the corresponding stock exchange of each fund, (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.

| Quarter Ended | Market Price |          | Acquiring Fund<br>Net Asset Value |          | Premium/(Discount) |         |
|---------------|--------------|----------|-----------------------------------|----------|--------------------|---------|
|               | 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%   |
| October 2010  | \$ 13.54     | \$ 12.80 | \$ 12.26                          | \$ 11.83 | 11.65%             | 5.18%   |
| July 2010     | \$ 13.32     | \$ 12.15 | \$ 11.83                          | \$ 11.67 | 13.07%             | 2.79%   |
| April 2010    | \$ 13.24     | \$ 12.11 | \$ 11.77                          | \$ 11.48 | 13.36%             | 5.21%   |

| Quarter Ended | Market Price |          | Target Fund<br>Net Asset Value |          | Premium/(Discount) |          |
|---------------|--------------|----------|--------------------------------|----------|--------------------|----------|
|               | High         | Low      | High                           | Low      | High               | Low      |
|               | January 2013 | \$ 13.95 | \$ 12.96                       | \$ 13.41 | \$ 13.03           | 6.25%    |
| October 2012  | \$ 13.23     | \$ 12.64 | \$ 13.06                       | \$ 12.80 | 2.17%              | (2.01)%  |
| July 2012     | \$ 13.21     | \$ 12.13 | \$ 12.90                       | \$ 12.36 | 4.28%              | (3.27)%  |
| April 2012    | \$ 12.34     | \$ 11.62 | \$ 12.34                       | \$ 11.87 | 1.73%              | (3.49)%  |
| January 2012  | \$ 12.34     | \$ 10.92 | \$ 11.89                       | \$ 11.07 | 4.05%              | (2.41)%  |
| October 2011  | \$ 11.00     | \$ 10.07 | \$ 11.37                       | \$ 11.03 | (1.52)%            | (10.73)% |
| July 2011     | \$ 11.12     | \$ 10.54 | \$ 11.09                       | \$ 10.50 | 4.13%              | (4.53)%  |
| April 2011    | \$ 11.01     | \$ 10.49 | \$ 10.50                       | \$ 10.17 | 6.27%              | 0.67%    |
| January 2011  | \$ 12.66     | \$ 10.07 | \$ 11.93                       | \$ 9.98  | 7.69%              | (3.35)%  |
| October 2010  | \$ 12.96     | \$ 12.44 | \$ 12.03                       | \$ 11.58 | 9.49%              | 4.25%    |
| July 2010     | \$ 12.76     | \$ 11.92 | \$ 11.61                       | \$ 11.42 | 10.53%             | 2.93%    |
| April 2010    | \$ 12.70     | \$ 11.48 | \$ 11.54                       | \$ 11.24 | 11.15%             | 1.77%    |

On March 18, 2013, the closing sale prices of the Acquiring Fund and Target Fund common shares were \$13.63 and \$12.68, respectively. These prices represent a premium to net asset value of the Acquiring Fund of 1.11% and a discount to net asset value of the Target Fund of 3.79%, respectively.

Common shares of each Fund have historically traded at both a premium and discount to net asset value. It is not possible to state whether Acquiring Fund common shares will trade at a premium or discount to net asset value following the Reorganization, or what the extent of any such premium or discount might be.

**Description of VMTP Shares to be Issued by the Acquiring Fund**

The terms of the VMTP Shares of the Acquiring Fund to be issued pursuant to the Reorganization will be substantially identical, as of the closing of the Reorganization, to the

outstanding VMTP Shares of the Target Fund. The aggregate liquidation preference of the Acquiring Fund VMTP Shares received in the Reorganization will equal the aggregate liquidation preference of the Target Fund VMTP Shares held immediately prior to the Reorganization.

The outstanding VMTP Shares for the Target Fund have a term redemption date of January 1, 2016, unless earlier redeemed or repurchased by the Target Fund, and pay cash dividends when, as and if declared by, or under authority granted by, the Target Fund Board. VMTP Shares are also subject to a mandatory redemption upon the occurrence of certain events, such as the Target Fund's failure to maintain the required asset coverage or effective leverage ratio levels, as well as optional redemption in whole or in part at the option of the Target Fund.

The Target Fund issued its VMTP Shares in a privately negotiated offering in December 2012. Proceeds of the Target Fund's offering were used to redeem all of the Fund's outstanding borrowings with its custodian bank. The VMTP Shares were offered to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933.

### **Summary Description of Massachusetts Business Trusts**

The following description is based on relevant provisions of applicable Massachusetts law and each Fund's operative documents. This summary does not purport to be complete and we refer you to applicable Massachusetts law and each Fund's operative documents.

*General.* Each of the Acquiring Fund and the Target Fund is a Massachusetts business trust. A fund organized as a Massachusetts business trust is governed by the trust's declaration of trust or similar instrument.

Massachusetts law allows the trustees of a business trust to set the terms of a fund's governance in its declaration. All power and authority to manage the fund and its affairs generally reside with the trustees, and shareholder voting and other rights are limited to those provided to the shareholders in the declaration. Under each Fund's declaration of trust, any determination as to what is in the interests of the Fund made by the trustees in good faith is conclusive, and in construing the provisions of the declaration of trust, there is a presumption in favor of a grant of power to the trustees. Further, each declaration of trust provides that certain determinations made in good faith by the trustees are binding upon the Fund and all shareholders, and shares are issued and sold on the condition and understanding, evidenced by the purchase of shares, that any and all such determinations shall be so binding.

Because Massachusetts law governing business trusts provides more flexibility compared to typical state corporate statutes, the Massachusetts business trust is a common form of organization for closed-end funds. However, some consider it less desirable than other entities because it relies on the terms of the applicable declaration and judicial interpretations rather than statutory provisions for substantive issues, such as the personal liability of shareholders and trustees, and does not provide the level of certitude that corporate laws like those of Minnesota, or newer statutory trust laws, such as those of Delaware, provide.

Shareholders of a Massachusetts business trust are not afforded the statutory limitation of personal liability generally afforded to shareholders of a corporation from the trust's liabilities. Instead, the declaration of trust of a fund organized as a Massachusetts business trust typically provides that a shareholder will not be personally liable, and further provides for indemnification to the extent that a shareholder is found personally liable, for the fund's acts or obligations. The declaration of trust for each of the Acquiring Fund and the Target Fund contains such provisions.

Similarly, the trustees of a Massachusetts business trust are not afforded statutory protection from personal liability for the obligations of the trust. Courts in Massachusetts have, however, recognized limitations of a trustee's personal liability in contract actions for the obligations of a trust contained in the trust's declaration, and declarations may also provide that trustees may be indemnified out of the assets of the trust to the extent held personally liable. The declaration of trust for each of the Acquiring Fund and the Target Fund contains such provisions.

*Shareholder Voting.* The declaration of trust of each Fund requires a shareholder vote on a number of matters, including certain amendments to the declaration of trust, the election of trustees, the merger or reorganization of the Fund (under certain circumstances) or sales of assets in certain circumstances and matters required to be voted by the 1940 Act.

Meetings of shareholders may be called by the trustees and by the written request of shareholders owning at least 10% of the outstanding shares entitled to vote. The by-laws of each Fund provide that the holders of a majority of the voting power of the shares of beneficial interest of the Fund entitled to vote at a meeting shall constitute a quorum for the transaction of business. The declaration of trust of each Fund provides that the affirmative vote of the holders of a majority of the shares present in person or by proxy and entitled to vote at a meeting of shareholders at which a quorum is present is required to approve a matter, except in the case of the election of trustees, which only requires a plurality vote, and for events to which other voting provisions apply under the 1940 Act or the declaration of trust and by-laws, such as the super-majority voting provisions with respect to a merger, consolidation or dissolution of, or sale of substantially all of the assets by, the Fund, or its conversion to an open-end investment company in certain circumstances under the terms of the declaration of trust.

*Election and Removal of Trustees.* The declaration of trust of each Fund provides that the trustees determine the size of the Board, subject to a minimum of two and a maximum of twelve, and set and alter the terms of office of the trustees, and may make their terms of unlimited duration. Subject to the provisions of the 1940 Act, the declaration of trust also provides that vacancies on the Board may be filled by the remaining trustees. A trustee may only be removed for cause by action of at least two-thirds of the remaining trustees or by action of at least two-thirds of the outstanding shares of the class or classes that elected such trustee.

*Issuance of Shares.* Under the declaration of trust of each Fund, the trustees are permitted to issue an unlimited number of shares for such consideration and on such terms as the trustees may determine. Shareholders are not entitled to any preemptive rights or other rights to subscribe to additional shares, except as the trustees may determine. Shares are subject to such other preferences, conversion, exchange or similar rights, as the trustees may determine.

*Classes.* The declaration of trust of each Fund gives broad authority to the trustees to establish classes or series in addition to those currently established and to determine the rights and preferences, conversion rights, voting powers, restrictions, limitations, qualifications or terms or conditions of redemptions of the shares of the classes or series. The trustees are also authorized to terminate a class or series without a vote of shareholders under certain circumstances.

*Amendments to Declaration of Trust.* Amendments to the declaration of trust generally require the consent of shareholders owning more than 50% of shares entitled to vote, voting in the aggregate. Certain amendments may be made by the trustees without a shareholder vote, and any amendment to the voting requirements contained in the declaration of trust requires the approval of

two-thirds of the outstanding common shares and preferred shares, voting in the aggregate and not by class except to the extent that applicable law or the declaration of trust may require voting by class.

*Shareholder, Trustee and Officer Liability.* The declaration of trust of each Fund provides that shareholders have no personal liability for the acts or obligations of the Fund and require the Fund to indemnify a shareholder from any loss or expense arising solely by reason of his or her being or having been a shareholder and not because of his or her acts or omissions or for some other reasons. In addition, the Fund will assume the defense of any claim against a shareholder for personal liability at the request of the shareholder. Similarly, the declaration of trust provides that any person who is a trustee, officer or employee of the Fund is not personally liable to any person in connection with the affairs of the Fund, other than to the Fund and its shareholders arising from bad faith, willful misfeasance, gross negligence or reckless disregard for his or her duty. The declaration of trust further provides for indemnification of such persons and advancement of the expenses of defending any such actions for which indemnification might be sought. The declaration of trust also provides that the trustees may rely in good faith on expert advice.

*Derivative Actions.* Massachusetts has what is commonly referred to as a universal demand statute, which requires that a shareholder make a written demand on the board, requesting the board members to bring an action, before the shareholder is entitled to bring or maintain a court action or claim on behalf of the entity.

**D. ADDITIONAL INFORMATION ABOUT THE INVESTMENT POLICIES**  
**Comparison of the Investment Objectives and Policies of the Acquiring Fund and the Target Fund**

***General***

The Funds have similar investment objectives and policies. The Acquiring Fund's primary investment objective is to provide high current income exempt from regular federal income tax. The Acquiring Fund's secondary investment objective is to seek attractive total return consistent with its primary objective. The Target Fund's primary investment objective is to provide attractive income exempt from regular federal income tax. The Target Fund's secondary investment objective is to seek additional return. Each Fund invests at least 80% of its Managed Assets in investments the income from which is exempt from regular federal income tax. Each Fund seeks to achieve its investment objectives by investing in municipal securities that the Adviser believes are underrated and undervalued.

Each Fund's investment objectives are fundamental policies of the Fund, and may not be changed without the approval of the holders of a majority of the outstanding common shares and preferred shares voting as a single class, and of holders of a majority of the outstanding preferred shares voting separately as a single class.

***Investment Policies***

The Acquiring Fund and Target Fund have similar investment policies. Under normal circumstances, each Fund will invest at least 80% of its Managed Assets in municipal securities that pay interest exempt from regular federal income tax. The foregoing investment policy is a fundamental policy with respect to each Fund.

Under normal circumstances, each Fund expects to be fully invested (at least 95% of its Managed Assets) in such tax-exempt municipal securities. Up to 30% of each 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.

Each Fund invests 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 nationally recognized statistical rating organizations (NRSROs) that rate such security, or if it is unrated but judged to be of comparable quality by the Adviser.

Each 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 NRSRO but rated below investment grade by at least one NRSRO. No more than 5% of the Acquiring Fund's Managed Assets and, with respect to the Target Fund, 10% of its Managed Assets, may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by the Adviser. This means that each 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 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 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 of each Fund's assets by the Adviser, market value fluctuations, issuance of additional shares and other events. If a municipal security satisfies the ratings requirements described above at the time of purchase, a Fund will not be required to dispose of the security upon a downgrade.

Each 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. In addition, each Fund may purchase municipal securities that are additionally secured by insurance, bank credit agreements or escrow accounts. The credit quality of companies that provide such credit enhancements will affect the value of those securities. Although the insurance feature reduces certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce a Fund's income. Each 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 Funds' common shares.

Each Fund may enter into certain derivative instruments in pursuit of its investment objectives, including to seek to enhance return, to hedge some of the risk of the Fund's investments in municipal securities or a substitute for a position in the underlying asset. 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. A Fund may not enter into a futures contract or related options or forward contracts if more than 30% of the Fund's net assets would be represented by futures contracts or more than 5% of the Fund's net assets would be committed to initial margin deposits and premiums on futures contracts or related options.

Each Fund may invest up to approximately 15% of its Managed Assets in inverse floating rate securities. Inverse floating rate securities represent a leveraged investment in the underlying municipal

bond deposited. Inverse floating rate securities offer the opportunity for higher income than the underlying bond, but will subject the Fund to the risk of lower or even no income if short-term interest rates rise sufficiently. By investing in an inverse floating rate security rather than directly in the underlying bond, the Fund will experience a greater increase in its common share net asset value if the underlying municipal bond increases in value, but will also experience a correspondingly larger decline in its common share net asset value if the underlying bond declines in value.

Each Fund may borrow money for the repurchase of its shares or for temporary or emergency purposes, such as for the payment of dividends or the settlement of portfolio transactions.

Each Fund is diversified for purposes of the 1940 Act. Consequently, as to 75% of its assets, a Fund may not invest more than 5% of its total assets in the securities of any single issuer, except that this limitation does not apply to securities of the U.S. Government, its agencies and instrumentalities.

In addition, the Acquiring Fund may not invest in securities other than municipal securities and short-term securities, as described herein, except that the Fund may invest up to 5% of its net assets in tax-exempt or taxable fixed-income or equity securities for the purpose of acquiring control of an issuer whose municipal securities (a) the Fund already owns and (b) have deteriorated or are expected shortly to deteriorate significantly in credit quality, provided that the Adviser determines such investment should enable the Fund to maximize better its existing investment in such issuer.

During temporary defensive periods and in order to keep a Fund's cash fully invested, each 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. It is the intent of each Fund 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 taxes and if the proportion of taxable investments exceeded 50% of a 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 permits it to pay exempt-interest dividends for that taxable year. For more information, See *Federal Income Tax Matters* in the Reorganization SAI.

## **Portfolio Investments**

### ***Municipal Securities***

*General.* The Funds 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 either general obligation or revenue bonds and often are issued by state and local governmental entities to finance or refinance public projects such as roads, public buildings, schools, and water supply systems, 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, transportation, electric utility and pollution control projects. 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 be issued on a long term basis to provide

permanent financing. 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.

Each 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. Each Fund may also purchase pre-refunded municipal securities, private activity 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 Funds 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 the Adviser 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, its call features and the rating of the issue. The market value of a municipal security will vary with changes in interest rate levels and as a result of changing evaluations of the ability of its issuer to meet interest and principal payments.

Municipal securities rated Baa or BBB are considered investment grade securities; municipal securities rated Baa are considered medium grade obligations which lack outstanding investment characteristics and have speculative characteristics, while municipal securities rated BBB are regarded as having adequate capacity to pay principal and interest. Municipal securities rated Aaa or AAA in which a Fund may invest may have been so rated on the basis of the existence of insurance guaranteeing the timely payment, when due, of all principal and interest. Municipal securities of below investment grade quality (Ba/BB or below) are commonly referred to as junk bonds. Issuers of securities rated Ba/BB or B are regarded as having current capacity to make principal and interest payments but are subject to business, financial or economic conditions which could adversely affect such payment capacity. Municipal securities rated below investment grade quality are obligations of issuers that are considered predominately speculative with respect to the issuer's capacity to pay interest and repay principal according to the terms of the obligation and, therefore, carry greater investment risk, including the possibility of issuer default and bankruptcy and increased market price volatility. Municipal securities rated below investment grade tend to be less marketable than higher-quality securities because the market for them is less broad. The market for unrated municipal securities is even narrower. During periods of thin trading in these markets, the spread between bid and asked prices is likely to increase significantly and a Fund may have greater difficulty selling its portfolio securities. Each Fund will be more dependent on the Adviser's research and analysis when investing in these securities.

Each Fund may invest in distressed securities, which are securities issued by companies that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the

time of acquisition by a Fund. The issuers of such securities may be in transition, out of favor, financially leveraged or troubled, or potentially troubled, and may have been or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation. These characteristics of these companies can cause their securities to be particularly risky, although they also may offer the potential for high returns. These companies' securities may be considered speculative, and the ability of the companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within the companies. Distressed securities frequently do not produce income while they are outstanding and may require a Fund to bear certain extraordinary expenses in order to protect and recover its investment.

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

Each 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 a Fund may be shorter, depending on market conditions. As of October 31, 2012, the weighted average maturities of the Acquiring Fund's and Target Fund's portfolios were 21.78 and 21.95 years, respectively. As a result, a Fund's portfolio at any given time may include both long-term and intermediate-term municipal securities. 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.

During temporary defensive periods (e.g., times when, in the Adviser's opinion, temporary imbalances of supply and demand or other temporary dislocations in the tax-exempt securities market adversely affect the price at which long-term or intermediate-term municipal securities are available), and in order to keep a Fund's cash fully invested, including the period during which the net proceeds of an offering are being invested, the Fund may invest any percentage of its net assets in short-term investments including high quality, short-term securities that may be either tax-exempt or taxable and up to 10% of its Managed Assets in securities of other open or closed-end investment companies that invest primarily in municipal securities of the type in which a Fund may invest directly. Each 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. Tax-exempt short-term investments include various obligations issued by state and local governmental issuers, such as tax-exempt notes (bond anticipation notes, tax anticipation notes and revenue anticipation notes or other such municipal bonds maturing in three years or less from the date of issuance) and municipal commercial paper. Each Fund will invest only in taxable short-term investments which are U.S. government securities or securities rated within the highest grade by Moody's, S&P or Fitch, and which mature within one year from the date of purchase or carry a variable or floating rate of interest. See Appendix A for a general description of Moody's, S&P's and Fitch's ratings of securities in such categories. Taxable short-term

investments of a Fund may include certificates of deposit issued by U.S. banks with assets of at least



\$1 billion, or commercial paper or corporate notes, bonds or debentures with a remaining maturity of one year or less, or repurchase agreements. To the extent a Fund invests in taxable investments, such Fund will not at such times be in a position to achieve its investment objective of tax-exempt income.

Obligations of issuers of municipal securities are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Bankruptcy Reform Act of 1978. In addition, the obligations of such issuers may become subject to the laws enacted in the future by Congress, state legislatures or referenda extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations or upon municipalities to levy taxes. There is also the possibility that, as a result of legislation or other conditions, the power or ability of any issuer to pay, when due, the principal of and interest on its municipal securities may be materially affected.

Subject to rating agency guidelines, a Fund may invest a significant portion of its Managed Assets in broad segments of the municipal securities market, such as revenue obligations of hospitals and other health care facilities, special taxing districts, securities issued to finance charter schools and other private educational facilities, municipal utility securities, industrial development bonds and other private activity bonds. Subject to the availability of suitable investment opportunities, the Adviser will attempt to minimize the sensitivity of each Fund's portfolio to credit and other risks associated with a particular sector or industry. However, if a Fund invests a significant portion of its Managed Assets in the segments noted above, such Fund will be more susceptible to economic, business, political, regulatory and other developments generally affecting issuers in such segments of the municipal securities market. To the extent that a Fund focuses its Managed Assets in the hospital and healthcare facilities sector, such Fund will be subject to risks associated with such sector, including adverse government regulation and reduction in reimbursement rates, as well as government approval of products and services and intense competition. Securities issued to finance charter schools and other private educational facilities will be subject to various risks, including the reversal of legislation authorizing or funding charter schools, the failure to renew or secure a charter, the failure of a funding entity to appropriate necessary funds and competition from alternatives such as voucher programs. Issuers of municipal utility securities can be significantly affected by government regulation, financing difficulties, supply and demand of services or fuel and natural resource conservation.

*Municipal Leases and Certificates of Participation.* Each Fund 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 that is issued by a state or local government to acquire equipment and facilities. Income from such obligations generally is 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, a Fund's original investment. To the extent that the Funds invest in unrated municipal leases or participate 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 Funds purchase only municipal securities representing lease obligations where the Adviser 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 Funds with the right to a pro rata undivided interest in the underlying municipal securities. In addition, such participations generally provide the Funds with the right to demand payment, on not more than seven days' notice, of all or any part of the Funds' 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 financings 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. A Fund's distribution of its interest income from private activity bonds may subject certain investors to the federal alternative minimum tax.

*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, each 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, a 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. Each 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 Funds, as the holder of the residual inverse floating rate securities.

Because increases in the interest rate on the short-term floaters reduce the residual interest paid on inverse floaters, and because fluctuations in the value of the municipal bond deposited in the special purpose trust affect the value of the inverse floater only, and not the value of the short-term floater issued by the trust, inverse floaters' value are more volatile than that of fixed rate bonds. The market price of inverse floating rate securities generally is more volatile than the underlying bonds due to the leveraging effect of this ownership structure. These securities generally will underperform the market of fixed rate bonds in a rising interest rate environment (*i.e.*, when bond values are falling), but tend to out-perform the market of fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, inverse floaters typically offer the potential for yields higher than those available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Inverse floaters have varying degrees of liquidity or illiquidity based upon the ability to sell the underlying bonds deposited in a special purpose trust at an attractive price.

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

Each 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 a Fund's inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security held in a special purpose trust. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short-term floating rate interests issued by the related special purpose trust is in excess of three times the principal amount of the inverse floating rate securities owned by the trust (the ratio of the principal amount of such short-term floating rate interests to the principal amount of the inverse floating rate securities is referred to as the "gearing"). In the event of a significant decline in the value of an underlying security, a 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 a Fund's anticipated effective leverage ratio.

Each 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.

*Floating Rate Securities.* Each 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, a 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, generally are 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 generally are 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***

Each 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 each Fund will be established with its custodian consisting of cash, cash equivalents, or liquid securities having a market value at all times at least equal to the amount of the commitment.

#### ***Zero Coupon Bonds***

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

#### ***Structured Notes***

Each 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*

*General.* Each 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. A Fund may also use credit default swaps and interest rate swaps. Credit default swaps may require initial premium (discount) payments as well as periodic payments (receipts) related to the interest leg of the swap or to the default of a reference obligation. If a 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, such 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, such Fund would keep the stream of payments and would have no payment obligations. As the seller, a Fund would be subject to investment exposure on the notional amount of the swap. If a 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, such 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 such Fund. Interest rate swaps involve the exchange by a 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. A 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.

The Adviser may use derivative instruments to seek to enhance return, to hedge some of the risk of each 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 the Adviser will determine to use them for a Fund or, if used, that the strategies will be successful.

*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 each Fund, each Fund is not deemed to be a commodity pool operator or a commodity pool under the Commodity Exchange Act (CEA) and neither it nor the Adviser or Nuveen Asset Management is currently subject to registration or regulation as such under the CEA. 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 a 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 each Fund intends to comply with amended Regulation 4.5's requirements such that the Adviser and/or the Sub-Adviser will not be required to register with respect to the Fund as a commodity pool operator with the CFTC. Each 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 Funds may enter into futures transactions, engage in options transactions or engage in swap transactions.

#### ***Other Investment Companies***

Each 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, each 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. Each 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 or during periods when there is a shortage of attractive, high-yielding municipal securities available in the market. Each Fund may invest in investment companies that are advised by the Adviser or its affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC. The Funds have not applied for and currently do not intend to apply for such relief. As a shareholder in an investment company, a 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 a Fund invests in other investment companies.

The Adviser 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. 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.

#### ***Investment Portfolio and Capital Structure Strategies to Manage Leverage Risk***

Common shareholders of each Fund are subject to the risks of leverage primarily in the form of additional common share earnings and net asset value risk, associated with a Fund's use of financial leverage in the form of preferred shares or inverse floating rate securities.

In an effort to mitigate these risks, each Fund and the Adviser seek to maintain the Fund's financial leverage within an established range, and to rebalance leverage levels if the Fund's leverage ratio moves outside this range to a meaningful degree for a persistent period of time. A Fund may

rebalance leverage levels in one or more ways, including by increasing/reducing the amount of leverage outstanding and issuing/repurchasing common shares. Reducing leverage may require a Fund to raise cash through the sale of portfolio securities at times and/or at prices that would otherwise be unattractive for the Fund. Each Fund may also seek to diversify its capital structure and the risks associated with leverage by employing multiple forms of leverage. Each Fund and the Adviser will weigh the relative potential benefits and risks as well as the costs associated with a particular action, and will take such action only if it determines that on balance the likely potential benefits outweigh the associated risks and costs.

Because the long-term municipal securities in which a Fund invests generally pay fixed rates of interest while the Fund's costs of leverage generally fluctuate with short-term yields, common shareholders bear incremental earnings risk from leverage.

### *Hedging Strategies*

Each Fund may use various investment strategies designed to limit the risk of bond price fluctuations and to preserve capital. These hedging strategies include using credit default swaps, interest rate swaps on taxable or tax-exempt indices, forward start interest rate swaps and options on interest rate swaps, financial futures contracts, options on financial futures or options based on either an index of long-term municipal securities or on taxable debt securities whose prices, in the opinion of the Adviser, correlate with the prices of a Fund's investments. These hedging strategies may generate taxable income.

**The Board of each Fund recommends that shareholders vote FOR the approval of the Reorganization.**

**PROPOSAL NO. 3 APPROVAL OF ISSUANCE OF ADDITIONAL COMMON SHARES  
OF ACQUIRING FUND  
(COMMON SHAREHOLDERS OF THE ACQUIRING FUND)**

In connection with the proposed Reorganization, the Acquiring Fund will issue additional Acquiring Fund common shares and, subject to notice of issuance, list such shares on the NYSE MKT and will issue VMTP Shares. The Acquiring Fund will acquire substantially all of the assets of the Target Fund in exchange for newly issued Acquiring Fund common shares and Acquiring Fund VMTP Shares and the assumption of substantially all of the liabilities of the Target Fund. The Target Fund will distribute Acquiring Fund common shares to its common shareholders and Acquiring Fund VMTP Shares to its preferred shareholders and will then terminate its registration under the 1940 Act and dissolve under applicable state law. The Acquiring Fund's Board, based upon its evaluation of all relevant information, anticipates that the Reorganization may benefit holders of the Acquiring Fund's common shares and preferred shares due to the increased size of the combined Fund.

The aggregate net asset value of Acquiring Fund common shares received by the Target Fund in the Reorganization will equal the aggregate net asset value of the Target Fund's common shares held immediately prior to the Reorganization. Prior to the Valuation Time, the net asset value of the Target Fund and the Acquiring Fund will be reduced by the costs of the Reorganization borne by such Fund. No fractional Acquiring Fund common shares will be issued to the Target Fund's shareholders and, in lieu of such fractional shares, the Target Fund's shareholders will receive cash in an amount equal to the value received for such shares in the open market, which may be higher or lower than net asset value. The



aggregate liquidation preference of the Acquiring Fund VMTP Shares received in the Reorganization will equal the aggregate liquidation preference of the Target Fund's VMTP Shares held immediately prior to the Reorganization. The Reorganization will result in no reduction in net asset value of the Acquiring Fund's common shares, other than to reflect the costs of the Reorganization. No gain or loss will be recognized by the Acquiring Fund for federal income tax purposes as a direct result of the Reorganization. As a result of the Reorganization, common shareholders of the Acquiring Fund will hold a smaller percentage of the outstanding voting shares of the combined fund. The Acquiring Fund will continue to operate as a registered closed-end management investment company with the investment objectives and policies described in this Joint Proxy Statement/Prospectus.

While applicable state and federal law does not require the common shareholders of the Acquiring Fund to approve the issuance of additional Acquiring Fund common shares, applicable NYSE MKT rules require shareholder approval of additional Acquiring Fund common shares to be issued in connection with the Reorganization, and the Acquiring Fund's Statement Establishing and Fixing the Rights and Preferences of the VMTP Shares (the "VMTP Statement") requires the common shareholders and preferred shareholders of the Acquiring Fund to vote together on matters submitted to a vote of shareholders.

Shareholder approval of the issuance of additional common shares of the Acquiring Fund requires the affirmative vote of a majority of the votes cast on the proposal, provided that the total votes cast on the proposal represent over 50% of the shares entitled to vote on the matter. Abstentions and broker non-votes will have no effect on the proposal. Broker non-votes represent shares held by brokers or nominees for which the brokers or nominees have executed proxies as to which (i) the broker or nominee does not have discretionary voting power and (ii) the broker or nominee has not received instructions from the beneficial owner or other person who is entitled to instruct how the shares will be voted.

The consummation of the Reorganization is contingent on the satisfaction or waiver of all closing conditions including approval of the proposals relating to the Reorganization by the Target Fund's shareholders and the Acquiring Fund's preferred shareholders.

**The Board of the Acquiring Fund recommends that shareholders of the Acquiring Fund vote FOR the approval of the issuance of additional Acquiring Fund common shares in connection with the Reorganization.**

#### **ADDITIONAL INFORMATION ABOUT THE ACQUIRING FUND**

##### **Certain Provisions in the Acquiring Fund's Declaration of Trust and By-Laws**

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Acquiring Fund. However, the Acquiring Fund's Declaration of Trust contains an express disclaimer of shareholder liability for debts or obligations of the Fund and requires that notice of such limited liability be given in each agreement, obligation or instrument entered into or executed by the Fund or the trustees. The Acquiring Fund's Declaration of Trust further provides for indemnification out of the assets and property of the Fund for all loss and expense of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Acquiring Fund would be unable to meet its obligations. The Acquiring Fund believes that the likelihood of such circumstances is remote.

The Acquiring Fund's Declaration of Trust includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. Specifically, the Acquiring Fund's Declaration of Trust requires a vote by holders of at least two-thirds of the outstanding common shares and preferred shares, voting as a single class, except as described below, to authorize (1) a conversion of the Fund from a closed-end to an open-end investment company, (2) a merger or consolidation of the Fund, or a series or class of the Fund, with any corporation, association, trust or other organization or a reorganization or recapitalization of the Fund, or a series or class of the Fund, (3) a sale, lease or transfer of all or substantially all of the Fund's assets (other than in the regular course of the Fund's investment activities), (4) in certain circumstances, a termination of the Fund, or a series or class of the Fund, or (5) a removal of trustees by shareholders, and then only for cause, unless, with respect to (1) through (4), such transaction has already been authorized by the affirmative vote of two-thirds of the total number of trustees fixed in accordance with the Acquiring Fund's Declaration of Trust or the Acquiring Fund's By-Laws, in which case the affirmative vote of the holders of at least a majority of the Fund's outstanding common shares and preferred shares, voting as a single class, is required, provided, however, that, where only a particular class or series is affected (or, in the case of removing a trustee, when the trustee has been elected by only one class), only the required vote by the applicable class or series will be required. The voting provisions of the Declaration of Trust are not to be construed as requiring shareholder approval for any transaction, whether deemed a merger, consolidation, reorganization or otherwise, whereby the Acquiring Fund issues shares in connection with the acquisition of assets (including those subject to liabilities) from any other investment company or similar entity. In the case of the conversion of the Acquiring Fund to an open-end investment company, or in the case of any of the foregoing transactions constituting a plan of reorganization (as that term is used in the 1940 Act) which adversely affects the holders of preferred shares, the action in question will also require the affirmative vote of the holders of at least two-thirds of the Acquiring Fund's preferred shares outstanding at the time, voting as a separate class, or, if such action has been authorized by the affirmative vote of two-thirds of the total number of trustees fixed in accordance with the Acquiring Fund's Declaration of Trust or the Acquiring Fund's By-Laws, the affirmative vote of the holders of at least a majority of the Acquiring Fund's preferred shares outstanding at the time, voting as a separate class. None of the foregoing voting provisions may be amended or repealed except by the vote of at least two-thirds of the common shares and preferred shares, voting as a single class. The votes required to approve the conversion of the Acquiring Fund from a closed-end to an open-end investment company or to approve transactions constituting a plan of reorganization which adversely affects the holders of preferred shares are higher than those required by the 1940 Act. The Acquiring Fund's Board believes that the provisions of the Acquiring Fund's Declaration of Trust relating to such higher votes are in the best interest of the Acquiring Fund.

The Declaration of Trust provides that the obligations of the Acquiring Fund are not binding upon the Fund's trustees individually, but only upon the assets and property of the Fund, and that the trustees shall not be liable for errors of judgment or mistakes of fact or law. Nothing in the Acquiring Fund's Declaration of Trust, however, protects a trustee against any liability to which he or she would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

In addition, the By-Laws require the Board be divided into three classes with staggered terms. This provision of the By-Laws could delay for up to two years the replacement of a majority of the Board. Holders of preferred shares, voting as a separate class, are entitled to elect two of the Fund's trustees. See Proposal No 1 Board Leadership Structure and Risk Oversight Board Member Terms.

The provisions of the Acquiring Fund's Declaration of Trust and By-Laws described above 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 by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a third party. They provide, however, the advantage of potentially requiring persons seeking control of the Acquiring Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund's investment objectives and policies. The Acquiring Fund's Board has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund.

The Acquiring Fund's Declaration of Trust provides that common shareholders shall have no right to acquire, purchase or subscribe for any shares or securities of the Fund, other than such right, if any, as the Fund's Board in its discretion may determine.

Reference should be made to the Acquiring Fund's Declaration of Trust on file with the SEC for the full text of these provisions. Because each of the Acquiring Fund and the Target Fund is a Massachusetts business trust, the Target Fund's Declaration of Trust contains the same provisions discussed above.

### **Repurchase of Common Shares; Conversion to Open-End Fund**

The Acquiring Fund is a closed-end management investment company, and as such its shareholders do not have the right to cause the Acquiring Fund to redeem their common shares. Instead, the common shares of the Acquiring Fund trade in the open market at a price that is a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, call protection, dividend stability, portfolio credit quality, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Because common shares of closed-end management investment companies may frequently trade at prices lower than net asset value, the Acquiring Fund's Board has determined that, at least annually, it will consider action that might be taken to reduce or eliminate any material discount from net asset value in respect of common shares, which may include the repurchase of such shares in the open market or in private transactions, the making of a tender offer for such shares at net asset value, or the conversion of the Acquiring Fund to an open-end investment company. There is no assurance that the Acquiring Fund's Board will decide to take any of these actions, or that share repurchases or tender offers will actually reduce market discount.

Notwithstanding the foregoing, at any time when the Acquiring Fund's preferred shares are outstanding, the Acquiring Fund may not purchase, redeem or otherwise acquire any of its common shares unless (1) all accumulated but unpaid preferred shares dividends due to be paid have been paid and (2) at the time of such purchase, redemption or acquisition, the net asset value of the Acquiring Fund's portfolio (determined after deducting the acquisition price of the common shares) is at least 200% of the liquidation value (expected to equal the original purchase price per share plus any accumulated but unpaid dividends thereon) of the outstanding preferred shares, including VMTP Shares.

If the Acquiring Fund converted to an open-end investment company, it would be required to redeem all its preferred shares, including VMTP Shares, then outstanding (requiring in turn that it liquidate a portion of its investment portfolio), and the common shares would no longer be listed on an exchange. In contrast to a closed-end management investment company, shareholders of an open-end

management investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their net asset value, less any redemption charge that is in effect at the time of redemption. See Certain Provisions in the Acquiring Fund's Declaration of Trust and By-Laws above for a discussion of the voting requirements applicable to the conversion of the Acquiring Fund to an open-end management investment company.

Before deciding whether to take any action if the common shares trade below net asset value, the Board would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Acquiring Fund's portfolio, the impact of any action that might be taken on the Acquiring Fund or its shareholders, and market considerations. Based on these considerations, even if the Acquiring Fund's common shares should trade at a discount, the Board may determine that, in the interest of the Acquiring Fund, no action should be taken. See the Reorganization SAI under Repurchase of Common Shares; Conversion to Open-End Fund for a further discussion of possible action to reduce or eliminate such discount to net asset value.

### **Description of Outstanding Acquiring Fund VMTP Shares**

#### ***General***

The Acquiring Fund currently has outstanding 510 VMTP Shares, par value \$0.01 per share, with a total liquidation value per share of \$100,000, which will remain outstanding following the completion of the Reorganization. The VMTP Shares were offered and sold by the Acquiring Fund to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, with all proceeds, net of offering expenses, used to pay the full outstanding balance, including accrued interest and fees, of the Fund's borrowings with its custodian bank.

#### ***Dividends***

Holders of VMTP Shares are entitled to receive cash dividends when, as and if declared by the Acquiring Fund's Board. The amount of dividends per VMTP Share payable on any dividend payment date will equal the sum of dividends accumulated but not yet paid for each rate period during the relevant monthly dividend period. The dividend rate applicable to any rate period (which typically consists of seven days) is an index rate based on the SIFMA Municipal Swap Index plus an applicable spread. The applicable spread is subject to adjustment in certain circumstances, including a change in the credit rating assigned to the VMTP Shares.

#### ***Redemption***

VMTP Shares are subject to optional and mandatory redemption in certain circumstances. The Acquiring Fund is obligated to redeem the VMTP Shares on January 1, 2016, unless earlier redeemed or repurchased by the Acquiring Fund, at a redemption price per share equal to the liquidation value per share (\$100,000) plus any accumulated but unpaid dividends. VMTP Shares also may be redeemed in whole or in part at the option of the Acquiring Fund at a redemption price per share equal to the liquidation value per share plus any accumulated but unpaid dividends plus, if the VMTP Shares are redeemed prior to June 21, 2014, an optional redemption premium per share equal to the product of (a) 1.00% and (b) the \$100,000 liquidation preference per share. In the event the Acquiring Fund fails to comply with asset coverage and/or effective leverage ratio requirements and any such failure is not cured within the applicable cure period, the Acquiring Fund may become obligated to redeem such number of preferred shares as are necessary to achieve compliance with such requirements.

### ***Voting and Consent Rights***

Except as otherwise provided in the Acquiring Fund's Declaration of Trust, the VMTP Statement, or as otherwise required by applicable law, (i) each holder of VMTP Shares is entitled to one vote for each VMTP Share held on each matter submitted to a vote of shareholders of the Acquiring Fund, and (ii) the holders of VMTP Shares, along with holders of other outstanding preferred shares of the Acquiring Fund vote with holders of common shares of the Acquiring Fund as a single class; provided, however, that holders of preferred shares, including VMTP Shares, are entitled as a class to elect two trustees of the Acquiring Fund at all times. The holders of outstanding common shares and preferred shares, including VMTP Shares, voting as a single class, elect the balance of the trustees of the Acquiring Fund.

Holders of VMTP Shares, as a separate class, have voting and consent rights with respect to certain actions that would materially and adversely affect any preference, right or power of the VMTP Shares or holders of VMTP Shares. In addition, holders of VMTP Shares have certain consent rights under the purchase agreement for the VMTP Shares with respect to certain actions that would affect their investment in the Acquiring Fund. Holders of VMTP Shares also are entitled to vote as a class with holders of other preferred shares of the Acquiring Fund on matters that relate to the conversion of the Acquiring Fund to an open-end investment company, certain plans of reorganization adversely affecting holders of the preferred shares or any other action requiring a vote of security holders of the Acquiring Fund under Section 13(a) of the 1940 Act. In certain circumstances, holders of preferred shares, including VMTP Shares, are entitled to elect additional trustees in the event at least two full years' dividends are due and unpaid and sufficient cash or specified securities have not been deposited for their payment, or at any time holders of preferred shares are entitled under the 1940 Act to elect a majority of the trustees of the Acquiring Fund.

### ***Priority of Payment***

The VMTP Shares are senior in priority to the Acquiring Fund's common shares as to the payment of dividends and as to the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The VMTP Shares have equal priority as to the payment of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund with other preferred shares of the Acquiring Fund.

### ***Custodian, Transfer Agent, Dividend Disbursing Agent and Redemption Agent***

The custodian of the assets of the Acquiring Fund is State Street Bank and Trust Company ( State Street ), One Lincoln Street, Boston, Massachusetts 02111. The custodian performs custodial, fund accounting and portfolio accounting services. The Acquiring Fund's transfer, shareholder services and dividend disbursing agent and redemption and paying agent is also State Street, 250 Royall Street, Canton, Massachusetts 02021.

### ***Federal Income Tax Matters Associated with Investment in the Acquiring Fund***

The following information is meant as a general summary of certain federal income tax matters for U.S. shareholders. Please see the Reorganization SAI for additional information. Investors should rely on their own tax adviser for advice about the particular federal, state and local tax consequences to them of investing in the Acquiring Fund.

The Acquiring Fund has elected to be treated and intends to qualify each year (including the taxable year in which the Reorganization occurs) as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ). In order to qualify as a RIC, the Acquiring Fund must satisfy certain requirements regarding the sources of its income, the diversification of its assets and the distribution of its income. As a RIC, the Acquiring Fund is not expected to be subject to federal income tax on the income and gains it distributes to its shareholders. The Acquiring Fund primarily invests in municipal securities the income from which is exempt from regular federal income tax. Thus, substantially all of the Acquiring Fund s dividends paid to you should qualify as exempt-interest dividends. A shareholder treats an exempt-interest dividend as interest on state and local bonds exempt from regular federal income tax. Federal income tax law imposes an alternative minimum tax with respect to corporations, individuals, trusts and estates. Interest on certain municipal obligations, such as certain private activity bonds, is included as an item of tax preference in determining the amount of a taxpayer s alternative minimum taxable income. To the extent that the Acquiring Fund receives income from such municipal obligations, a portion of the dividends paid by the Acquiring Fund, although exempt from regular federal income tax, will be taxable to shareholders to the extent that their tax liability is determined under the federal alternative minimum tax. The Acquiring Fund will annually provide a report indicating the percentage of the Acquiring Fund s income attributable to municipal obligations subject to the federal alternative minimum tax. Corporations are subject to special rules in calculating their federal alternative minimum taxable income with respect to interest from municipal obligations.

Future legislation could limit the exclusion from gross income of tax-exempt interest (which includes exempt-interest dividends received from the Acquiring Fund). Such legislation could affect the value of the municipal bonds owned by the Acquiring Fund. The likelihood of such legislation being enacted cannot be predicted. Shareholders should consult their own tax advisers regarding the potential consequences of future legislation on their investment in the Acquiring Fund.

In addition to exempt-interest dividends, the Acquiring Fund may also distribute to its shareholders amounts that are treated as long-term capital gain or ordinary income (which may include short-term capital gains). These distributions may be subject to federal, state and local taxation, depending on a shareholder s situation. If so, they are taxable whether or not such distributions are reinvested. Net capital gain distributions (the excess of net long-term capital gain over net short-term capital loss) are generally taxable at rates applicable to long-term capital gains regardless of how long a shareholder has held its shares. Long-term capital gains are currently taxable to noncorporate shareholders at a maximum federal income tax rate of 15%, or for certain high income individuals, 20%. In addition, for taxable years beginning after December 31, 2012, certain individuals, estates and trusts are subject to a 3.8% Medicare tax on net investment income, including net capital gains and other taxable dividends. The Acquiring Fund does not expect that any part of its distributions to shareholders from its investments will qualify for the dividends-received deduction available to corporate shareholders or as qualified dividend income to noncorporate shareholders.

As a RIC, the Acquiring Fund will not be subject to federal income tax in any taxable year provided that it meets certain distribution requirements. The Acquiring Fund may retain for investment some (or all) of its net capital gain. If the Acquiring Fund retains any net capital gain or investment company taxable income, it will be subject to tax at regular corporate rates on the amount retained. If the Acquiring Fund retains any net capital gain, it may designate the retained amount as undistributed capital gains in a notice to its shareholders who, if subject to federal income tax on long-term capital gains, (i) will be required to include in income for federal income tax purposes, as long-term capital

gain, their share of such undistributed amount; (ii) will be entitled to credit their proportionate shares of the federal income tax paid by the Acquiring Fund on such undistributed amount against their federal income tax liabilities, if any; and (iii) may claim refunds to the extent the credit exceeds such liabilities. For federal income tax purposes, the basis of shares owned by a shareholder of the Acquiring Fund will be increased by an amount equal to the difference between the amount of undistributed capital gains included in the shareholder's gross income and the tax deemed paid by the shareholder under clause (ii) of the preceding sentence.

The IRS currently requires that a RIC that has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as exempt interest, ordinary income and capital gains). Accordingly, the Acquiring Fund designates dividends made with respect to common shares and preferred shares as consisting of particular types of income (e.g., exempt interest, net capital gain and ordinary income) in accordance with each class' proportionate share of the total dividends paid by the Acquiring Fund during the year.

Dividends declared by the Acquiring Fund to shareholders of record in October, November or December and paid during the following January will be treated as having been received by shareholders in the year the distributions were declared.

Each shareholder will receive an annual statement summarizing the shareholder's dividend and capital gains distributions.

The redemption, sale or exchange of shares normally will result in capital gain or loss to shareholders who hold their shares as capital assets. Generally, a shareholder's gain or loss will be long-term capital gain or loss if the shares have been held for more than one year even though the increase in value in such shares is attributable to tax-exempt interest income. The gain or loss on shares held for one year or less will generally be treated as short-term capital gain or loss. Present law taxes both long-term and short-term capital gains of corporations at the same rates applicable to ordinary income. For noncorporate taxpayers, however, long-term capital gains are currently taxed at a maximum federal income tax rate of 15% (or 20% for certain high income individuals), while short-term capital gains and other ordinary income are currently taxed at ordinary income rates. An additional 3.8% Medicare tax may also apply to certain individual, estate or trust shareholders' capital gain from the sale or other disposition of shares for taxable years beginning after December 31, 2012. Any loss on the sale of shares that have been held for six months or less will be disallowed to the extent of any distribution of exempt-interest dividends received with respect to such shares, unless the shares are of a RIC that declares exempt-interest dividends on a daily basis in an amount equal to at least 90% of its net tax-exempt interest and distributes such dividends on a monthly or more frequent basis. Any remaining loss on the sale or disposition of shares held for six months or less will be treated as a long-term capital loss to the extent of any net capital gain distributions received by the shareholder on such shares. Any loss realized on a sale or exchange of shares of the Acquiring Fund will be disallowed to the extent those shares of the Acquiring Fund are replaced by other substantially identical shares of the Acquiring Fund or other substantially identical stock or securities (including through reinvestment of dividends) within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition of the original shares. In that event, the basis of the replacement shares will be adjusted to reflect the disallowed loss.

Any interest on indebtedness incurred or continued to purchase or carry the Acquiring Fund's shares to which exempt-interest dividends are allocated is not deductible. Under certain applicable

rules, the purchase or ownership of shares may be considered to have been made with borrowed funds even though such funds are not directly used for the purchase or ownership of the shares. In addition, if you receive Social Security or certain railroad retirement benefits, you may be subject to U.S. federal income tax on a portion of such benefits as a result of receiving investment income, including exempt-interest dividends and other distributions paid by the Acquiring Fund.

If the Acquiring Fund invests in certain pay-in-kind securities, zero coupon securities, deferred interest securities or, in general, any other securities with original issue discount (or with market discount if the Acquiring Fund elects to include market discount in income currently), the Acquiring Fund must accrue income on such investments for each taxable year, which generally will be prior to the receipt of the corresponding cash payments. However, the Acquiring Fund must distribute to shareholders, at least annually, all or substantially all of its investment company taxable income (determined without regard to the deduction for dividends paid) and its net tax-exempt income, including such accrued income, to qualify as a RIC and (with respect to its ordinary income and capital gain) to avoid federal income and excise taxes. Therefore, the Acquiring Fund may have to dispose of its portfolio securities under disadvantageous circumstances to generate cash, or may have to leverage itself by borrowing the cash, to satisfy these distribution requirements.

The Acquiring Fund may hold or acquire municipal obligations that are market discount bonds. A market discount bond is a security acquired in the secondary market at a price below its redemption value (or its adjusted issue price if it is also an original issue discount bond). If the Acquiring Fund invests in a market discount bond, it will be required to treat any gain recognized on the disposition of such market discount bond as ordinary taxable income to the extent of the accrued market discount.

The Acquiring Fund may be required to withhold U.S. federal income tax at a rate of 28% from all distributions (including exempt-interest dividends) and redemption proceeds payable to a shareholder if the shareholder fails to provide the Acquiring Fund with his or her correct taxpayer identification number or to make required certifications, or if the shareholder has been notified by the IRS (or the IRS notifies the Acquiring Fund) that he or she is subject to backup withholding. Backup withholding is not an additional tax; rather, it is a way in which the IRS ensures it will collect taxes otherwise due. Any amounts withheld may be credited against a shareholder's U.S. federal income tax liability.

#### **Net Asset Value**

The Acquiring Fund's net asset value per common share is determined as of the close of the regular session trading (normally 4:00 p.m. Eastern time) on each day the NYSE is open for business. Net asset value is calculated by taking the market value of the Acquiring Fund's total assets, including interest or dividends accrued but not yet collected, less all liabilities, and dividing by the total number of shares outstanding. The result, rounded to the nearest cent, is the net asset value per share. All valuations are subject to review by the Acquiring Fund's Board or its delegate.

In determining net asset value per common share, expenses are accrued and applied daily and securities and other assets for which market quotations are available are valued at market value. The prices of municipal bonds are provided by a pricing service approved by the Acquiring Fund's Board. When market price quotes are not readily available (which is usually the case for municipal securities), the pricing service, or, in the absence of a pricing service for a particular security, the Board of the Acquiring Fund, or its designee, may establish fair market value using a wide variety of market data including yields or prices of municipal bonds of comparable quality, type of issue, coupon, maturity



and rating, market quotes or indications of value from securities dealers, evaluations of anticipated cash flows or collateral, general market conditions and other information and analysis, including the obligor's credit characteristics considered relevant by the pricing service or the Board's designee.

### Legal Opinions

Certain legal matters in connection with the issuance of common shares pursuant to the Agreement and Plan of Reorganization will be passed upon by Bingham McCutchen, LLP, Boston, Massachusetts.

### Experts

The financial statements of the Acquiring Fund and the Target Fund appearing in each Fund's Annual Report for the year ended October 31, 2012 are incorporated by reference herein. The financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in such reports thereon and incorporated herein by reference. Such financial statements are incorporated by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing. Ernst & Young LLP provides auditing services to the Acquiring Fund and the Target Fund. The principal business address of Ernst & Young LLP is 155 North Wacker Drive, Chicago, Illinois 60606.

## GENERAL INFORMATION

### Outstanding Shares of the Acquiring Fund and the Target Fund

The following table sets forth the number of outstanding common shares and preferred shares and certain other share information, of each Fund as of March 18, 2013.

| (1)<br>Title of Class   | (2)<br>Shares Authorized | (3)<br>Shares Held by Fund<br>for Its Own Account | (4)<br>Shares Outstanding<br>Exclusive of Shares<br>Shown under (3) |
|-------------------------|--------------------------|---|---|
| <b>Acquiring Fund:</b>  |                          |   |   |
| Common shares           | Unlimited                |   | 31,336,775  |
| Preferred shares (VMTP) | Unlimited                |   | 510   |
| <b>Target Fund:</b>     |                          |   |   |
| Common shares           | Unlimited                |   | 18,899,837  |
| Preferred shares (VMTP) | Unlimited                |   | 360   |

The common shares of the Acquiring Fund are listed and trade on the NYSE MKT under the ticker symbol NMZ. The common shares of the Target Fund are listed and trade on the NYSE under the ticker symbol NMD. Upon the closing of the Reorganization, it is expected that the common shares of the Acquiring Fund will continue to be listed on the NYSE MKT. The VMTP Shares of each Fund are not listed on any exchange.

### Shareholders of the Acquiring Fund and the Target Fund

As of April 1, 2013, the members of the Board and officers of each Fund as a group owned less than 1% of the total outstanding common shares and less than 1% of the total outstanding preferred shares of that Fund.

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Information regarding shareholders or groups of shareholders who beneficially own more than 5% of a class of shares of a Fund is provided below. Information in the table below regarding the number and percentage of shares owned is based on a review of Schedule 13D and 13G filings and amendments made on or before March 15, 2013. The estimated pro forma information presented is calculated assuming that outstanding common and preferred shares were as of March 15, 2013.

| Fund and Class                  | Shareholder Name and Address   | Number of Shares Owned | Percentage Owned | Estimated Pro Forma                  |                                       |
|---------------------------------|--|------------------------|------------------|--------------------------------------|---------------------------------------|
|                                 |  |                        |                  | Corresponding Class of Combined Fund | All Preferred Shares of Combined Fund |
| Acquiring Fund<br>Common Shares | First Trust Portfolios L.P., <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                   | 3,685,592              | 12.94%           | 13.46%                               | N/A                                   |
|                                 | First Trust Advisors L.P., <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                     |                        |                  |                                      |                                       |
|                                 | The Charger Corporation, <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                       |                        |                  |                                      |                                       |
| Acquiring Fund<br>VMTP Shares   | Bank of America Corporation, <sup>(b)</sup> Bank<br>of America Corporate Center, 100 North<br>Tryon Street, Charlotte, North Carolina<br>28255 | 510                    | 100%             | 100%                                 | 100%                                  |
|                                 | Banc of America Preferred Funding<br>Corporation, <sup>(b)</sup><br>214 North Tryon Street, Charlotte,<br>North Carolina 28255                 |                        |                  |                                      |                                       |
| Target Fund<br>Common Shares    | First Trust Portfolios L.P., <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                   | 3,090,204              | 17.14%           | 13.46%                               | N/A                                   |
|                                 | First Trust Advisors L.P., <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                     |                        |                  |                                      |                                       |
|                                 | The Charger Corporation, <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                       |                        |                  |                                      |                                       |

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|             |   |     |      |      |      |
|-------------|---|-----|------|------|------|
| Target Fund | Bank of America Corporation, <sup>(b)</sup> Bank of America Corporate Center, 100 North Tryon Street, Charlotte, North Carolina 28255 | 360 | 100% | 100% | 100% |
| VMTP Shares |   |     |      |      |      |

Banc of America Preferred Funding Corporation,<sup>(b)</sup>  
 214 North Tryon Street, Charlotte,  
 North Carolina 28255

- (a) First Trust Portfolios L.P., First Trust Advisors L.P. and The Charger Corporation filed their Schedule 13G jointly and did not differentiate holdings as to each entity.
- (b) Bank of America Corporation and Banc of America Preferred Funding Corporation filed their Schedule 13D jointly and did not differentiate holdings as to each entity.

### **Audit Committee Report**

The Audit Committee of each Fund's Board is responsible for the oversight and monitoring of (1) the accounting and reporting policies, processes and practices, and the audit of the financial statements, of each Fund, (2) the quality and integrity of the Funds' financial statements and (3) the independent registered public accounting firm's qualifications, performance and independence. In its oversight capacity, the committee reviews each Fund's annual financial statements with both management and the independent registered public accounting firm and the committee meets periodically with the independent registered public accounting firm and internal auditors to consider their evaluation of each Fund's financial and internal controls. The committee also selects, retains and evaluates and may replace each Fund's independent registered public accounting firm. The committee is currently composed of five Independent Board Members and operates under a written charter adopted and approved by each Board. Each committee member meets the independence and experience requirements, as applicable, of the NYSE, NYSE MKT, Section 10A of the 1934 Act and the rules and regulations of the SEC.

The committee, in discharging its duties, has met with and held discussions with management and each Fund's independent registered public accounting firm. The committee has also reviewed and discussed the audited financial statements with management. Management has represented to the independent registered public accounting firm that each Fund's financial statements were prepared in accordance with generally accepted accounting principles. The committee has also discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards (SAS) No. 114 (The Auditor's Communication With Those Charged With Governance), which supersedes SAS No. 61 (Communication with Audit Committees). Each Fund's independent registered public accounting firm provided to the committee the written disclosure required by Public Company Accounting Oversight Board Rule 3526 (Communications with Audit Committees Concerning Independence), and the committee discussed with representatives of the independent registered public accounting firm their firm's independence. As provided in the Audit Committee Charter, it is not the committee's responsibility to determine, and the considerations and discussions referenced above do not ensure, that each Fund's financial statements are complete and accurate and presented in accordance with generally accepted accounting principles.

Based on the committee's review and discussions with management and the independent registered public accounting firm, the representations of management and the report of the independent registered public accounting firm to the committee, the committee has recommended that the audited financial statements be included in each Fund's Annual Report.

The current members of the committee are:

Robert P. Bremner

David J. Kundert

William J. Schneider

Carole E. Stone

Terence J. Toth

### **Appointment of the Independent Registered Public Accounting Firm**

Each Fund's Board has appointed Ernst & Young LLP as independent registered public accounting firm to audit the books and records of each Fund for its current fiscal year. A representative

of Ernst & Young LLP will be present at the Annual Meeting to make a statement, if such representative so desires, and to respond to shareholders' questions. Ernst & Young LLP has informed each Fund that it has no direct or indirect material financial interest in the Funds, Nuveen, the Adviser or any other investment company sponsored by Nuveen.

**Audit and Related Fees**

*Audit and Related Fees.* The following table provides the aggregate fees billed during each Fund's last two fiscal years by each Fund's independent registered public accounting firm for engagements directly related to the operations and financial reporting of each Fund, including those relating (i) to each Fund for services provided to the Fund and (ii) to the Adviser and certain entities controlling, controlled by, or under common control with the Adviser that provide ongoing services to each Fund (Adviser Entities).

|                         | Audit Fees             |                        | Audit Related Fees     |                        |                              |                        | Tax Fees               |                        |                              |                        | All Other Fees         |                        |                              |                        |
|-------------------------|------------------------|------------------------|------------------------|------------------------|------------------------------|------------------------|------------------------|------------------------|------------------------------|------------------------|------------------------|------------------------|------------------------------|------------------------|
|                         | Fund <sup>(1)</sup>    |                        | Fund <sup>(2)</sup>    |                        | Adviser and Adviser Entities |                        | Fund <sup>(3)</sup>    |                        | Adviser and Adviser Entities |                        | Fund <sup>(4)</sup>    |                        | Adviser and Adviser Entities |                        |
|                         | Fiscal Year Ended 2011 | Fiscal Year Ended 2012 | Fiscal Year Ended 2011 | Fiscal Year Ended 2012 | Fiscal Year Ended 2011       | Fiscal Year Ended 2012 | Fiscal Year Ended 2011 | Fiscal Year Ended 2012 | Fiscal Year Ended 2011       | Fiscal Year Ended 2012 | Fiscal Year Ended 2011 | Fiscal Year Ended 2012 | Fiscal Year Ended 2011       | Fiscal Year Ended 2012 |
| Municipal High Income   | \$ 18,200              | \$ 21,200              | \$ 10,000              | \$ 5,000               | \$                           | \$                     | \$                     | \$                     | \$                           | \$                     | \$ 850                 | \$                     | \$                           | \$                     |
| Municipal High Income 2 | 18,200                 | 21,200                 | 15,000                 | 18,000                 |                              |                        |                        |                        |                              |                        |                        |                        |                              |                        |

- (1) Audit Fees are the aggregate fees billed for professional services for the audit of the Fund's annual financial statements and services provided in connection with statutory and regulatory filings or engagements.
- (2) Audit-Related Fees are the aggregate fees billed for assurance and related services reasonably related to the performance of the audit or review of financial statements that are not reported under Audit Fees. These fees include offerings related to the Fund's common shares and leverage.
- (3) Tax Fees are the aggregate fees billed for professional services for tax advice, tax compliance, and tax planning. These fees include: all global withholding tax services; excise and state tax reviews; capital gain, tax equalization and taxable basis calculations performed by the principal accountant.
- (4) All Other Fees are the aggregate fees billed for products and services other than Audit Fees, Audit-Related Fees and Tax Fees. These fees represent all Agreed-Upon Procedures engagements pertaining to the Fund's use of leverage.

*Non-Audit Fees.* The following table provides the aggregate non-audit fees billed by each Fund's independent registered accounting firm for services rendered to each Fund, the Adviser and the Adviser Entities during each Fund's last two fiscal years. Less than 50 percent of the principal accountant's engagement to audit the registrant's financial statements for the most recent year were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

| Fund                    | Total Non-Audit Fees Billed to Fund |                   | Total Non-Audit Fees Billed to Adviser and Adviser Entities (Engagements Related Directly to the Operations and Financial Reporting of Fund) |                   | Total Non-Audit Fees Billed to Adviser and Adviser Entities (All Other Engagements) |                   | Total             |                   |
|-------------------------|-------------------------------------|-------------------|--|-------------------|---|-------------------|-------------------|-------------------|
|                         | Fiscal Year Ended                   | Fiscal Year Ended | Fiscal Year Ended  | Fiscal Year Ended | Fiscal Year Ended   | Fiscal Year Ended | Fiscal Year Ended | Fiscal Year Ended |
|                         | 2011                                | 2012              | 2011   | 2012              | 2011  | 2012              | 2011              | 2012              |
| Municipal High Income   | \$ 850                              | \$                | \$   | \$                | \$  | \$                | \$ 850            | \$                |
| Municipal High Income 2 |                                     |                   |  |                   |   |                   |                   |                   |

*Audit Committee Pre-Approval Policies and Procedures.* Generally, the Audit Committee must approve each Fund's independent registered public accounting firm's engagements (i) with the Fund for audit or non-audit services and (ii) with the Adviser and Adviser Entities for non-audit services if the engagement relates directly to the operations and financial reporting of the Fund. Regarding tax and research projects conducted by the independent registered public accounting firm for each Fund and the Adviser and Adviser Entities (with respect to the operations and financial reporting of each Fund), such engagements will be (i) pre-approved by the Audit Committee if they are expected to be for amounts greater than \$10,000; (ii) reported to the Audit Committee Chairman for his/her verbal approval prior to engagement if they are expected to be for amounts under \$10,000 but greater than \$5,000; and (iii) reported to the Audit Committee at the next Audit Committee meeting if they are expected to be for an amount under \$5,000.

The Audit Committee has approved in advance all audit services and non-audit services that the independent registered public accounting firm provided to each Fund and to the Adviser and Adviser Entities (with respect to the operations and financial reporting of each Fund). None of the services rendered by the independent registered public accounting firm to each Fund or the Adviser or Adviser Entities were pre-approved by the Audit Committee pursuant to the pre-approval exception under Rule 2-01(c)(7)(i)(C) or Rule 2-01(c)(7)(ii) of Regulation S-X.

#### Section 16(a) Beneficial Interest Reporting Compliance

Section 30(h) of the 1940 Act and Section 16(a) of the 1934 Act require Board Members and officers, the Adviser, affiliated persons of the Adviser and persons who own more than 10% of a registered class of a Fund's equity securities to file forms reporting their affiliation with that Fund and reports of ownership and changes in ownership of that Fund's shares with the SEC and the NYSE or NYSE MKT, as applicable. These persons and entities are required by SEC regulation to furnish the Funds with copies of all Section 16(a) forms they file. Based on a review of these forms furnished to each Fund, each Fund believes that its Board Members and officers, the Adviser and affiliated persons of the Adviser have complied with all applicable Section 16(a) filing requirements during its last fiscal year. To the knowledge of management of the Funds, no shareholder of a Fund owns more than 10% of a registered class of a Fund's equity securities, except as provided above in the section entitled Shareholders of the Acquiring Fund and Target Funds.

#### Expenses of Proxy Solicitation

The cost of preparing, printing and mailing the enclosed proxy, accompanying notice and proxy statement and all other costs in connection with the solicitation of proxies will be paid by the Funds pro rata based on the projected net benefit and cost savings to each Fund. Additional solicitation may be

made by letter or telephone by officers or employees of Nuveen or the Adviser, or by dealers and their representatives. Any additional costs of solicitation will be paid by the Fund that requires additional solicitation.

### **Shareholder Proposals**

To be considered for presentation at the 2014 annual meeting of shareholders of the Funds, shareholder proposals submitted pursuant to Rule 14a-8 under the 1934 Act must have been received at the offices of the Fund, 333 West Wacker Drive, Chicago, Illinois 60606, not later than February 28, 2014 which each Fund believes to be a reasonable time before each Fund expects to send its proxy statement for the 2014 annual meeting. A shareholder wishing to provide notice in the manner prescribed by Rule 14a-4(c)(1) of a proposal submitted outside of the process of Rule 14a-8 must, pursuant to each Fund's By-Laws, submit such written notice to the respective Fund by the later of 45 days prior to the 2014 annual meeting date or the tenth business day following the date the 2014 annual meeting date is first publicly disclosed. Timely submission of a proposal does not mean that such proposal will be included in a proxy statement.

If all proposals are approved and the Reorganization is consummated, the Target Fund will cease to exist and will not hold its 2014 annual meeting. If the Reorganization is not approved or is not consummated, the Target Fund will hold its 2014 annual meeting of shareholders, expected to be held in July 2014.

### **Shareholder Communications**

Fund shareholders who want to communicate with the Board or any individual Board Member should write to the attention of Lorna Ferguson, Manager of Fund Board Relations, Nuveen Investments, 333 West Wacker Drive, Chicago, Illinois 60606. The letter should indicate that you are a Fund shareholder and note the Fund or Funds that you own. If the communication is intended for a specific Board Member and so indicates, it will be sent only to that Board Member. If a communication does not indicate a specific Board Member it will be sent to the Independent Chairman and the outside counsel to the Independent Board Members for further distribution as deemed appropriate by such persons.

### **Fiscal Year**

The fiscal year end for each Fund is October 31.

### **Annual Report Delivery**

Annual reports will be sent to shareholders of record of each Fund following each Fund's fiscal year end. Each Fund will furnish, without charge, a copy of its annual report and/or semi-annual report as available upon request. Such written or oral requests should be directed to such Fund at 333 West Wacker Drive, Chicago, Illinois 60606 or by calling 1-800-257-8787.

### **Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 16, 2013**

Each Fund's Proxy Statement is available at <http://www.nuveenproxy.com/ProxyInfo/CEF/Default.aspx>. For more information, shareholders may also contact the applicable Fund at the address and phone number set forth above.

Please note that only one annual report or proxy statement may be delivered to two or more shareholders of a Fund who share an address, unless the Fund has received instructions to the contrary. To request a separate copy of an annual report or proxy statement, or for instructions as to how to request a separate copy of such documents or as to how to request a single copy if multiple copies of such documents are received, shareholders should contact the applicable Fund at the address and phone number set forth above.

#### **Other Information**

Management of the Funds does not intend to present and does not have reason to believe that others will present any items of business at the Annual Meetings, except as described in this Joint Proxy Statement/Prospectus. However, if other matters are properly presented at the meetings for a vote, the proxies will be voted upon such matters in accordance with the judgment of the persons acting under the proxies.

A list of shareholders of each Fund entitled to be present and to vote at the Annual Meetings will be available at the offices of the Funds, 333 West Wacker Drive, Chicago, Illinois, for inspection by any shareholder of the Funds during regular business hours for ten days prior to the date of the Annual Meetings.

In the absence of a quorum for a particular matter, business may proceed on any other matter or matters which may properly come before the Annual Meeting if there shall be present, in person or by proxy, a quorum of shareholders in respect of such other matters. The chairman of the meeting may, whether or not a quorum is present, propose one or more adjournments of the Annual Meeting on behalf of a Fund without further notice to permit further solicitation of proxies. Any such adjournment will require the affirmative vote of the holders of a majority of the shares of the Fund present in person or by proxy and entitled to vote at the session of the Annual Meeting to be adjourned.

Broker-dealer firms holding shares in street name for the benefit of their customers and clients will request the instruction of such customers and clients on how to vote their shares on the proposals. A broker-dealer firm that has not received instructions from a customer prior to the date specified in its request for voting instructions may not vote such customer's shares on the proposals. A signed proxy card or other authorization by a beneficial owner of shares of a Fund that does not specify how the beneficial owner's shares are to be voted on a proposal may be deemed to be an instruction to vote such shares in favor of the proposal.

**IF YOU CANNOT BE PRESENT AT THE MEETING, YOU ARE REQUESTED TO FILL IN, SIGN AND RETURN THE ENCLOSED PROXY PROMPTLY. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

Kevin J. McCarthy

*Vice President and Secretary*

The Nuveen Funds

April 24, 2013



**APPENDIX A**

**FORM OF AGREEMENT AND PLAN OF REORGANIZATION**

THIS AGREEMENT AND PLAN OF REORGANIZATION (the Agreement ) is made as of this                    day of                    , 2013 by and between Nuveen Municipal High Income Opportunity Fund (the Acquiring Fund ) and Nuveen Municipal High Income Opportunity Fund 2 (the Target Fund ), each, a Massachusetts business trust. The Acquiring Fund and the Target Fund may be referred to herein each as a Fund and together as the Funds.

This Agreement is intended to be, and is adopted as, a plan of reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code ), and the Treasury Regulations promulgated thereunder. The reorganization of the Target Fund into the Acquiring Fund will consist of: (i) the transfer of substantially all of the assets of the Target Fund to the Acquiring Fund in exchange solely for newly issued common shares of beneficial interest, par value \$0.01 per share, of the Acquiring Fund ( Acquiring Fund Common Shares ) and newly issued Variable Rate MuniFund Term Preferred Shares ( VMTP Shares ) of the Acquiring Fund, with a par value of \$0.01 per share and liquidation preference of \$100,000 per share, as set forth in this Agreement ( Acquiring Fund VMTP Shares ) and together with the Acquiring Fund Common Shares, Acquiring Fund Shares ) and the assumption by the Acquiring Fund of substantially all of the liabilities of the Target Fund; and (ii) the distribution of all the Acquiring Fund Common Shares and Acquiring Fund VMTP Shares received by the Target Fund to the holders of common shares and VMTP Shares of the Target Fund, respectively, as part of the complete liquidation, dissolution and termination of the Target Fund as provided herein, all upon the terms and conditions set forth in this Agreement (the Reorganization ).

WHEREAS, each Fund is a closed-end, management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act ), and the Target Fund owns securities that generally are assets of the character in which the Acquiring Fund is permitted to invest;

WHEREAS, the Acquiring Fund is authorized to issue the Acquiring Fund Shares; and

WHEREAS, the Board of Trustees of the Acquiring Fund (the Acquiring Fund Board ) has determined that the Reorganization is in the best interests of the Acquiring Fund and that the interests of the existing shareholders of the Acquiring Fund will not be diluted as a result of the Reorganization, and the Board of Trustees of the Target Fund (the Target Fund Board ) has determined that the Reorganization is in the best interests of the Target Fund and that the interests of the existing shareholders of the Target Fund will not be diluted as a result of the Reorganization.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements hereinafter set forth, the parties hereto covenant and agree as follows:

**ARTICLE I**

**TRANSFER OF ASSETS OF THE TARGET FUND IN EXCHANGE FOR  
ACQUIRING FUND SHARES AND THE ASSUMPTION OF THE LIABILITIES OF  
THE TARGET FUND AND TERMINATION AND LIQUIDATION OF  
THE TARGET FUND**

1.1 THE EXCHANGE. Subject to the terms and conditions contained herein and on the basis of the representations and warranties contained herein, the Target Fund agrees to transfer

substantially all of its assets, as set forth in Section 1.2, to the Acquiring Fund. In consideration therefor, the Acquiring Fund agrees: (i) to issue and deliver to the Target Fund the number of Acquiring Fund Common Shares computed in the manner set forth in Section 2.3, and the same number of Acquiring Fund VMTP Shares as the number of VMTP Shares of the Target Fund outstanding immediately prior to the Closing Date (as such term is defined in Section 3.1) and having substantially identical terms to the Target Fund's VMTP Shares as of the Closing Date, and (ii) to assume substantially all of the liabilities of the Target Fund, if any, as set forth in Section 1.3. The Acquiring Fund VMTP Shares to be issued to the Target Fund shall consist of a separate series, as set forth in Exhibit A hereto, and such series shall: (i) have equal priority with other outstanding preferred shares of the Acquiring Fund as to the payment of dividends and as to the distribution of assets upon liquidation of the Acquiring Fund; and (ii) have, along with any other outstanding preferred shares of the Acquiring Fund, preference with respect to the payment of dividends and as to the distribution of assets upon liquidation of the affairs of the Acquiring Fund over the Acquiring Fund common shares. Such transactions shall take place at the closing provided for in Section 3.1 (the "Closing").

**1.2 ASSETS TO BE TRANSFERRED.** The Target Fund shall transfer substantially all of its assets to the Acquiring Fund, including, without limitation, cash, securities, commodities, interests in futures, dividends or interest receivables owned by the Target Fund and any deferred or prepaid expenses shown as an asset on the books of the Target Fund as of the Closing, except that the Target Fund shall retain assets sufficient to pay the preferred share dividends as set forth in Section 1.4 and the dividends set forth in Section 8.5.

The Target Fund will, within a reasonable period of time before the Closing Date, furnish the Acquiring Fund with a list of the Target Fund's portfolio securities and other investments. The Acquiring Fund will, within a reasonable period of time before the Closing Date, furnish the Target Fund with a list of the securities, if any, on the Target Fund's list referred to above that do not conform to the Acquiring Fund's investment objectives, policies, and restrictions. The Target Fund, if requested by the Acquiring Fund, will dispose of securities on the Acquiring Fund's list before the Closing Date. In addition, if it is determined that the portfolios of the Target Fund and the Acquiring Fund, when aggregated, would contain investments exceeding certain percentage limitations imposed upon the Acquiring Fund with respect to such investments, the Target Fund, if requested by the Acquiring Fund, will dispose of a sufficient amount of such investments as may be necessary to avoid violating such limitations as of the Closing Date. Notwithstanding the foregoing, nothing herein will require the Target Fund to dispose of any investments or securities if, in the reasonable judgment of the Target Fund Board or Nuveen Fund Advisors, LLC, the investment adviser to the Funds (the "Adviser"), such disposition would adversely affect the status of the Reorganization as a reorganization as such term is used in the Code or would otherwise not be in the best interests of the Target Fund.

**1.3 LIABILITIES TO BE ASSUMED.** The Target Fund will endeavor to discharge all of its known liabilities and obligations to the extent possible before the Closing Date, except for the dividends set forth in Section 1.4 and the dividends set forth in Section 8.5. Notwithstanding the foregoing, the liabilities not so discharged shall be assumed by the Acquiring Fund, which assumed liabilities shall include all of the Target Fund's liabilities, debts, obligations, and duties of whatever kind or nature, whether absolute, accrued, contingent, or otherwise, whether or not arising in the ordinary course of business, whether or not determinable at the Closing Date, and whether or not specifically referred to in this Agreement, provided that the Acquiring Fund shall not assume any liabilities with respect to the dividends set forth in Section 1.4 or the dividends set forth in Section 8.5.

1.4 **DECLARATION OF PREFERRED SHARE DIVIDENDS.** Dividends shall accumulate on the existing Target Fund VMTP Shares up to and including the day before the Closing Date (as such term is defined in Section 3.1) and then cease to accumulate, and dividends on the Acquiring Fund VMTP Shares shall accumulate from and including the Closing Date. Prior to the Valuation Time, the Target Fund shall declare all accumulated but unpaid dividends on its Target Fund VMTP Shares up to and including the day before the Closing Date. Such dividends shall be paid on the dividend payment date in respect of the first dividend period of the Acquiring Fund VMTP Shares for which the Target Fund VMTP Shares were exchanged to the holder thereof on the day immediately preceding the Closing Date. The Target Fund shall retain assets in an amount sufficient to pay the dividends declared by it pursuant to this Section 1.4, and such assets shall not be transferred to the Acquiring Fund on the Closing Date.

1.5 **LIQUIDATION AND DISTRIBUTION.** On or as soon after the Closing Date as is practicable but in no event later than 12 months after the Closing Date (the Liquidation Date ): (a) the Target Fund will distribute in complete liquidation of the Target Fund, pro rata to its common shareholders of record (the Target Fund Common Shareholders ), as of the time of such distribution, all of the Acquiring Fund Common Shares received by the Target Fund pursuant to Section 1.1 (together with any dividends declared with respect thereto to holders of record as of a time after the Valuation Time and payable prior to the Liquidation Date ( Interim Dividends )) and to its preferred shareholders of record ( Target Fund Preferred Shareholders and, together with Target Fund Common Shareholders, the Target Fund Shareholders ), as of the time of such distribution, one share of Acquiring Fund VMTP Shares received by the Target Fund (together with any Interim Dividends) in exchange for each Target Fund VMTP Share held by the Target Fund Preferred Shareholder immediately prior to the Reorganization; and (b) the Target Fund will thereupon proceed to dissolve and terminate as set forth in Section 1.8 below. Such distribution will be accomplished by the transfer of the Acquiring Fund Shares then credited to the account of the Target Fund on the books of the Acquiring Fund to open accounts on the share records of the Acquiring Fund in the names of Target Fund Shareholders and representing, in the case of a Target Fund Common Shareholder, such shareholder's pro rata share of the Acquiring Fund Common Shares received by the Target Fund and in the case of a Target Fund Preferred Shareholder, a number of Acquiring Fund VMTP Shares received by the Target Fund equal to the number of Target Fund VMTP Shares held by such Target Fund Preferred Shareholder immediately prior to the Closing Date (as set forth above), and by paying to Target Fund Shareholders any Interim Dividends on such transferred shares. All issued and outstanding common and preferred shares of the Target Fund will simultaneously be canceled on the books of the Target Fund. The Acquiring Fund shall not issue certificates representing Acquiring Fund Shares in connection with such transfer.

1.6 **OWNERSHIP OF SHARES.** Ownership of Acquiring Fund Shares will be shown on the books of the Acquiring Fund's transfer agent. Acquiring Fund Shares will be issued to the Target Fund in an amount computed in the manner set forth in this Agreement, to be distributed to Target Fund Shareholders.

1.7 **TRANSFER TAXES.** Any transfer taxes payable upon the issuance of Acquiring Fund Shares in a name other than the registered holder of the Target Fund's common shares or preferred shares on the books of the Target Fund as of that time shall, as a condition of such issuance and transfer, be paid by the person to whom such Acquiring Fund Shares are to be issued and transferred.

1.8 **TERMINATION.** The Target Fund shall completely liquidate and be dissolved, terminated and have its affairs wound up in accordance with Massachusetts state law promptly following the Closing Date and the making of all distributions pursuant to Section 1.5.

1.9 **REPORTING.** Any reporting responsibility of the Target Fund including, without limitation, the responsibility for filing of regulatory reports, tax returns or other documents with the Securities and Exchange Commission (the Commission), the exchange on which the Target Fund's shares are listed or any state securities commission and any federal, state or local tax authorities or any other relevant regulatory authority, is and shall remain the responsibility of the Target Fund.

1.10 **BOOKS AND RECORDS.** All books and records of the Target Fund, including all books and records required to be maintained under the 1940 Act, and the rules and regulations thereunder, shall be available to the Acquiring Fund from and after the Closing Date and shall be turned over to the Acquiring Fund as soon as practicable following the Closing Date.

## **ARTICLE II**

### **VALUATION**

2.1 **VALUATION OF ASSETS.** The value of the net assets of the Target Fund shall be the value of its assets, less its liabilities, computed as of the close of regular trading on the New York Stock Exchange on the business day immediately prior to the Closing Date (such time and date being hereinafter called the Valuation Time), using the valuation procedures of the Nuveen closed-end funds adopted by the Target Fund Board or such other valuation procedures as shall be mutually agreed upon by the parties. The value of the Target Fund's net assets shall be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding preferred shares of the Target Fund.

2.2 **VALUATION OF SHARES.** The net asset value per Acquiring Fund Common Share shall be computed as of the Valuation Time, using the valuation procedures of the Nuveen closed-end funds adopted by the Acquiring Fund Board or such other valuation procedures as shall be mutually agreed upon by the parties. The value of the Acquiring Fund's net assets shall be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding Acquiring Fund preferred shares.

2.3 **COMMON SHARES TO BE ISSUED.** The number of Acquiring Fund Common Shares to be issued in exchange for the Target Fund's assets transferred to the Acquiring Fund shall be determined by dividing the value of such assets transferred to the Acquiring Fund (net of the liabilities of the Target Fund that are assumed by the Acquiring Fund) determined in accordance with Section 2.1, by the net asset value of an Acquiring Fund Common Share determined in accordance with Section 2.2. No fractional Acquiring Fund Common Shares will be issued to Target Fund Common Shareholders and, in lieu of such fractional shares, Target Fund Common Shareholders will receive cash. The aggregate net asset value of Acquiring Fund Common Shares received by the Target Fund in the Reorganization will equal, as of the Valuation Time, the aggregate net asset value of Target Fund common shares held by Target Fund Common Shareholders as of such time. In the event there are fractional Acquiring Fund Common Shares due a Target Fund Common Shareholder on the Closing Date after the Target Fund's assets have been exchanged for Acquiring Fund Common Shares,

the Acquiring Fund's transfer agent will aggregate such fractional common shares and sell the resulting whole on the exchange on which such shares are listed for the account of holders of all such fractional interests, and each such holder will be entitled to a pro rata share of the proceeds from such sale. With respect to the aggregation and sale of fractional common shares, the Acquiring Fund's transfer agent will act directly on behalf of the shareholders entitled to receive fractional shares and will accumulate such fractional shares, sell the shares and distribute the cash proceeds net of brokerage commissions, if any, directly to shareholders entitled to receive the fractional shares (without interest and subject to withholding taxes).

2.4 **EFFECT OF SUSPENSION IN TRADING.** In the event that at the Valuation Time, either: (a) the exchange on which shares of a Fund are listed or another primary exchange on which the portfolio securities of the Acquiring Fund or the Target Fund are purchased or sold shall be closed to trading or trading on such exchange shall be restricted; or (b) trading or the reporting of trading on the exchange on which shares of a Fund are listed or elsewhere shall be disrupted so that accurate appraisal of the value of the net assets of the Acquiring Fund or the Target Fund is impracticable, the Valuation Time shall be postponed until the first business day after the day when trading is fully resumed and reporting is restored.

2.5 **COMPUTATIONS OF NET ASSETS.** All computations of net asset value in this Article II shall be made by or under the direction of State Street Bank and Trust Company ( "State Street" ) in accordance with its regular practice as custodian of the Funds.

### **ARTICLE III**

#### **CLOSING AND CLOSING DATE**

3.1 **CLOSING DATE.** The Closing shall occur on June 10, 2013 or such other date as the parties may agree (the "Closing Date" ). Unless otherwise provided, all acts taking place at the Closing shall be deemed to take place as of 8:00 a.m. Central time. The Closing shall be held as of 8:00 a.m. Central time at the offices of Vedder Price P.C. in Chicago, Illinois or at such other time and/or place as the parties may agree.

3.2 **CUSTODIAN'S CERTIFICATE.** The Target Fund shall cause State Street, as custodian for the Target Fund (the "Custodian" ), to deliver to the Acquiring Fund at the Closing a certificate of an authorized officer stating that the Target Fund's portfolio securities, cash, and any other assets shall have been delivered in proper form to the Acquiring Fund on the Closing Date.

3.3 **CERTIFICATES OF TRANSFER AGENT.**

(a) The Target Fund shall issue and deliver or cause State Street in its capacity as transfer agent with respect to common shares and VMTP Shares, to issue and deliver to the Acquiring Fund at the Closing a certificate of an authorized officer stating that its records contain the names and addresses of all holders of common shares and VMTP Shares of the Target Fund, and the number and percentage ownership of outstanding common shares and VMTP Shares owned by each such Target Fund Shareholder immediately prior to the Closing.

(b) The Acquiring Fund shall issue and deliver or cause State Street in its capacity as transfer agent with respect to common shares and VMTP Shares, to issue and deliver to the Target

Fund a confirmation evidencing the Acquiring Fund Shares to be credited on the Closing Date to the Secretary of the Target Fund or provide evidence satisfactory to the Target Fund that such Acquiring Fund Shares have been credited to the Target Fund's account on the books of the Acquiring Fund.

3.4 DELIVERY OF ADDITIONAL ITEMS. At the Closing, each party shall deliver to the other parties such bills of sale, checks, assignments, share certificates, receipts and other documents, if any, as such other parties or their counsel may reasonably request to effect the transactions contemplated by this Agreement.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

4.1 REPRESENTATIONS OF THE TARGET FUND. The Target Fund represents and warrants solely on its own behalf with respect to the Reorganization as follows:

- (a) The Target Fund is a business trust duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts.
- (b) The Target Fund is registered as a closed-end management investment company under the 1940 Act, and such registration is in full force and effect.
- (c) The Target Fund is not, and the execution, delivery, and performance of this Agreement (subject to shareholder approval) will not result in, the violation of any provision of the Target Fund's Declaration of Trust, By-Laws, Statement Establishing and Fixing the Rights and Preferences of Variable Rate MuniFund Term Preferred Shares ( Target Fund VMTP Statement ), or of any material agreement, indenture, instrument, contract, lease, or other undertaking to which the Target Fund is a party or by which it is bound.
- (d) Except as otherwise disclosed in writing to and accepted by the Acquiring Fund, the Target Fund has no material contracts or other commitments that will be terminated with liability to it before the Closing Date.
- (e) No litigation, administrative proceeding, or investigation of or before any court or governmental body is presently pending or to its knowledge threatened against the Target Fund or any of its properties or assets, which, if adversely determined, would materially and adversely affect its financial condition, the conduct of its business, or the ability of the Target Fund to carry out the transactions contemplated by this Agreement. The Target Fund knows of no facts that might form the basis for the institution of such proceedings and is not a party to or subject to the provisions of any order, decree, or judgment of any court or governmental body that materially and adversely affects its business or its ability to consummate the transactions contemplated herein.
- (f) The financial statements of the Target Fund as October 31, 2012, and for the fiscal year then ended have been prepared in accordance with generally accepted accounting principles, and such statements (copies of which have been furnished to the Acquiring Fund) fairly reflect the financial condition of the Target Fund as of October 31, 2012, and there are no known contingent liabilities of the Target Fund as of such date that are not disclosed in such statements.

(g) Since the date of the financial statements referred to in subsection (f) above, there have been no material adverse changes in the Target Fund's financial condition, assets, liabilities or business (other than changes occurring in the ordinary course of business) and there are no known contingent liabilities of the Target Fund arising after such date. For the purposes of this subsection (g), a decline in the net asset value of the Target Fund shall not constitute a material adverse change.

(h) All federal, state, local and other tax returns and reports of the Target Fund required by law to be filed by it (taking into account permitted extensions for filing) have been timely filed and are complete and correct in all material respects. All federal, state, local and other taxes of the Target Fund required to be paid (whether or not shown on any such return or report) have been paid, or provision shall have been made for the payment thereof and any such unpaid taxes, as of the date of the financial statements referred to in subsection (f) above, are properly reflected thereon. To the best of the Target Fund's knowledge, no tax authority is currently auditing or preparing to audit the Target Fund, and no assessment for taxes, interest, additions to tax or penalties has been asserted against the Target Fund.

(i) The authorized capital of the Target Fund consists of an unlimited number of common and preferred shares of beneficial interest, par value \$0.01 per share. All issued and outstanding shares of the Target Fund are duly and validly issued, fully paid and non-assessable by the Target Fund (recognizing that under Massachusetts law, Target Fund shareholders, under certain circumstances, could be held personally liable for the obligations of the Target Fund under Massachusetts law). All of the issued and outstanding shares of the Target Fund will, at the time of the Closing, be held by the persons and in the amounts set forth in the records of the Target Fund's transfer agent as provided in Section 3.3. The Target Fund has no outstanding options, warrants or other rights to subscribe for or purchase any shares of the Target Fund, and has no outstanding securities convertible into shares of the Target Fund.

(j) At the Closing, the Target Fund will have good and marketable title to the Target Fund's assets to be transferred to the Acquiring Fund pursuant to Section 1.2, and full right, power, and authority to sell, assign, transfer, and deliver such assets, and the Acquiring Fund will acquire good and marketable title thereto, subject to no restrictions on the full transfer thereof, including such restrictions as might arise under the Securities Act of 1933, as amended (the "1933 Act"), except those restrictions as to which the Acquiring Fund has received notice and necessary documentation at or prior to the Closing.

(k) The execution, delivery and performance of this Agreement have been duly authorized by all necessary action on the part of the Target Fund, including the determinations of the Target Fund Board required by Rule 17a-8(a) of the 1940 Act. Subject to approval by shareholders, this Agreement constitutes a valid and binding obligation of the Target Fund, enforceable in accordance with its terms, subject as to enforcement, to bankruptcy, insolvency, reorganization, moratorium, and other laws relating to or affecting creditors' rights and to general equity principles.

(l) The information to be furnished by the Target Fund for use in no-action letters, applications for orders, registration statements, proxy materials and other documents that may be necessary in connection with the transactions contemplated herein shall be accurate and complete in all material respects and shall comply in all material respects with federal securities and other laws and regulations.

(m) From the effective date of the Registration Statement (as defined in Section 5.7) through the time of the meeting of shareholders and on the Closing Date, any written information furnished by the Target Fund with respect to the Target Fund for use in the Proxy Materials (as defined in Section 5.7), or any other materials provided in connection with the Reorganization, does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated or necessary to make the statements, in light of the circumstances under which such statements were made, not misleading.

(n) For each taxable year of its operations (including the taxable year ending on the Closing Date), the Target Fund: (i) has elected to qualify, and has qualified or will qualify (in the case of the short taxable year ending with the Closing Date), as a regulated investment company under the Code (a RIC); (ii) has been eligible to compute and has computed its federal income tax under Section 852 of the Code, and on or prior to the Closing Date will have declared a distribution with respect to all its investment company taxable income (determined without regard to the deduction for dividends paid), the excess of its interest income excludible from gross income under Section 103(a) of the Code over its deductions disallowed under Sections 265 and 171(a)(2) of the Code and its net capital gain (as such terms are defined in the Code) that has accrued or will accrue on or prior to the Closing Date; and (iii) has been, and will be (in the case of the short taxable year ending with the Closing Date), treated as a separate corporation for federal income tax purposes.

#### 4.2 REPRESENTATIONS OF THE ACQUIRING FUND. The Acquiring Fund represents and warrants as follows:

(a) The Acquiring Fund is a business trust duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts.

(b) The Acquiring Fund is registered as a closed-end management investment company under the 1940 Act, and such registration is in full force and effect.

(c) The Acquiring Fund is not, and the execution, delivery and performance of this Agreement will not result, in a violation of the Acquiring Fund's Declaration of Trust, By-Laws, Statement Establishing and Fixing the Rights and Preferences of Variable Rate MuniFund Term Preferred Shares (Acquiring Fund VMTP Statement), or of any material agreement, indenture, instrument, contract, lease, or other undertaking to which the Acquiring Fund is a party or by which it is bound.

(d) No litigation, administrative proceeding or investigation of or before any court or governmental body is presently pending or to its knowledge threatened against the Acquiring Fund or any of its properties or assets, which, if adversely determined, would materially and adversely affect its financial condition, the conduct of its business or the ability of the Acquiring Fund to carry out the transactions contemplated by this Agreement. The Acquiring Fund knows of no facts that might form the basis for the institution of such proceedings and it is not a party to or subject to the provisions of any order, decree, or judgment of any court or governmental body that materially and adversely affects its business or its ability to consummate the transactions contemplated herein.

(e) The financial statements of the Acquiring Fund as of October 31, 2012 and for the fiscal year then ended have been prepared in accordance with generally accepted accounting principles and have been audited by independent auditors, and such statements (copies of which have



been furnished to the Target Fund) fairly reflect the financial condition of the Acquiring Fund as of October 31, 2012, and there are no known contingent liabilities of the Acquiring Fund as of such date that are not disclosed in such statements.

(f) Since the date of the financial statements referred to in subsection (e) above, there have been no material adverse changes in the Acquiring Fund's financial condition, assets, liabilities or business (other than changes occurring in the ordinary course of business) and there are no known contingent liabilities of the Acquiring Fund arising after such date. For the purposes of this subsection (f), a decline in the net asset value of the Acquiring Fund shall not constitute a material adverse change.

(g) All federal, state, local and other tax returns and reports of the Acquiring Fund required by law to be filed by it (taking into account permitted extensions for filing) have been timely filed and are complete and correct in all material respects. All federal, state, local and other taxes of the Acquiring Fund required to be paid (whether or not shown on any such return or report) have been paid or provision shall have been made for their payment and any such unpaid taxes, as of the date of the financial statements referred to in subsection (e) above, are properly reflected thereon. To the best of the Acquiring Fund's knowledge, no tax authority is currently auditing or preparing to audit the Acquiring Fund, and no assessment for taxes, interest, additions to tax or penalties has been asserted against the Acquiring Fund.

(h) The authorized capital of the Acquiring Fund consists of an unlimited number of common and preferred shares of beneficial interest, par value \$0.01 per share. All issued and outstanding shares of the Acquiring Fund are duly and validly issued, fully paid and non-assessable by the Acquiring Fund (recognizing that under Massachusetts law, Acquiring Fund shareholders, under certain circumstances, could be held personally liable for the obligations of the Acquiring Fund). The Acquiring Fund has no outstanding options, warrants, or other rights to subscribe for or purchase any shares of the Acquiring Fund, and has no outstanding securities convertible into shares of the Acquiring Fund.

(i) The execution, delivery and performance of this Agreement have been duly authorized by all necessary action on the part of the Acquiring Fund, including the determinations of the Acquiring Fund Board required pursuant to Rule 17a-8(a) of the 1940 Act. Subject to approval by shareholders, this Agreement constitutes a valid and binding obligation of the Acquiring Fund, enforceable in accordance with its terms, subject as to enforcement, to bankruptcy, insolvency, reorganization, moratorium, and other laws relating to or affecting creditors' rights and to general equity principles.

(j) The Acquiring Fund Shares to be issued and delivered to the Target Fund for the account of Target Fund Shareholders pursuant to the terms of this Agreement will, at the Closing Date, have been duly authorized. When so issued and delivered, such Acquiring Fund Shares will be duly and validly issued shares of the Acquiring Fund, and will be fully paid and non-assessable by the Acquiring Fund (recognizing that under Massachusetts law, Acquiring Fund shareholders, under certain circumstances, could be held personally liable for the obligations of the Acquiring Fund).

(k) The information to be furnished by the Acquiring Fund for use in no-action letters, applications for orders, registration statements, proxy materials, and other documents that may be necessary in connection with the transactions contemplated herein shall be accurate and complete in all material respects and shall comply in all material respects with federal securities and other laws and regulations.

(l) From the effective date of the Registration Statement (as defined in Section 5.7) through the time of the meeting of shareholders and on the Closing Date, any written information furnished by the Acquiring Fund with respect to the Acquiring Fund for use in the Proxy Materials (as defined in Section 5.7), or any other materials provided in connection with the Reorganization, does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated or necessary to make the statements, in light of the circumstances under which such statements were made, not misleading.

(m) For each taxable year of its operations, including the taxable year that includes the Closing Date, the Acquiring Fund: (i) has elected to qualify, has qualified or will qualify (in the case of the year that includes the Closing Date) and intends to continue to qualify as a RIC under the Code; (ii) has been eligible to and has computed its federal income tax under Section 852 of the Code, and will do so for the taxable year that includes the Closing Date; and (iii) has been, and will be (in the case of the taxable year that includes the Closing Date), treated as a separate corporation for federal income tax purposes.

(n) The Acquiring Fund agrees to use all reasonable efforts to obtain the approvals and authorizations required by the 1933 Act, the 1940 Act, and any state securities laws as it may deem appropriate in order to continue its operations after the Closing Date.

## ARTICLE V

### COVENANTS OF THE FUNDS

5.1 OPERATION IN ORDINARY COURSE. Subject to Sections 1.2, 1.4 and 8.5, the Acquiring Fund and the Target Fund will operate its respective business in the ordinary course between the date of this Agreement and the Closing Date, it being understood that such ordinary course of business will include customary dividends and distributions, and any other distribution necessary or desirable to avoid federal income or excise taxes.

5.2 APPROVAL OF SHAREHOLDERS. The Acquiring Fund and the Target Fund will call a meeting of their respective shareholders to consider and act upon this Agreement and to take all other appropriate action necessary to obtain approval of the transactions contemplated herein.

5.3 INVESTMENT REPRESENTATION. The Target Fund covenants that the Acquiring Fund Shares to be issued pursuant to this Agreement are not being acquired for the purpose of making any distribution, other than in connection with the Reorganization and in accordance with the terms of this Agreement.

5.4 ADDITIONAL INFORMATION. The Target Fund will assist the Acquiring Fund in obtaining such information as the Acquiring Fund reasonably requests concerning the beneficial ownership of the Target Fund's shares.

5.5 FURTHER ACTION. Subject to the provisions of this Agreement, each Fund will take or cause to be taken, all action, and do or cause to be done, all things reasonably necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement, including any actions required to be taken after the Closing Date.

5.6 STATEMENT OF EARNINGS AND PROFITS. As promptly as practicable, but in any case within 60 days after the Closing Date, the Target Fund shall furnish the Acquiring Fund, in

such form as is reasonably satisfactory to the Acquiring Fund and which shall be certified by the Target Fund's Controller, a statement of the earnings and profits of the Target Fund for federal income tax purposes, as well as any net operating loss carryovers and capital loss carryovers, that will be carried over to the Acquiring Fund pursuant to Section 381 of the Code.

5.7 **PREPARATION OF REGISTRATION STATEMENT AND PROXY MATERIALS.** The Funds will prepare and file with the Commission a registration statement on Form N-14 relating to the Acquiring Fund Common Shares to be issued to Target Fund Common Shareholders (the "Registration Statement"). The Registration Statement shall include a proxy statement of the Funds and a prospectus of the Acquiring Fund relating to the transactions contemplated by this Agreement. The Registration Statement shall be in compliance with the 1933 Act, the Securities Exchange Act of 1934, as amended (the "1934 Act"), and the 1940 Act, as applicable. Each party will provide the other party with the materials and information necessary to prepare the proxy statement and related materials (the "Proxy Materials"), for inclusion therein, in connection with the meetings of the Funds' shareholders to consider the approval of this Agreement and the transactions contemplated herein.

5.8 **TAX STATUS OF REORGANIZATION.** The intention of the parties is that the Reorganization will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. Neither the Target Fund nor the Acquiring Fund shall take any action, or cause any action to be taken (including, without limitation, the filing of any tax return), that is inconsistent with such treatment or that results in the failure of the transactions to qualify as a "reorganization" within the meaning of Section 368(a) of the Code. At or prior to the Closing Date, the parties to this Agreement will take such action, or cause such action to be taken, as is reasonably necessary to enable counsel to render the tax opinion contemplated in Section 8.8.

## ARTICLE VI

### CONDITION PRECEDENT TO OBLIGATIONS OF THE TARGET FUND

The obligations of the Target Fund to consummate the transactions provided for herein shall be subject to the fulfillment or waiver of the following condition:

6.1 All representations, covenants, and warranties of the Acquiring Fund contained in this Agreement shall be true and correct in all material respects as of the date hereof and as of the Closing Date, with the same force and effect as if made on and as of the Closing Date. The Acquiring Fund shall have delivered to the Target Fund a certificate executed in the Acquiring Fund's name by the Acquiring Fund's Chief Administrative Officer or Vice President and Controller, in form and substance satisfactory to the Target Fund and dated as of the Closing Date, to such effect and as to such other matters as the Target Fund shall reasonably request.

## ARTICLE VII

### CONDITIONS PRECEDENT TO OBLIGATIONS OF THE ACQUIRING FUND

The obligations of the Acquiring Fund to consummate the transactions provided for herein shall be subject to the fulfillment or waiver of the following conditions:

7.1 All representations, covenants, and warranties of the Target Fund contained in this Agreement shall be true and correct in all material respects as of the date hereof and as of the Closing

Date, with the same force and effect as if made on and as of the Closing Date. The Target Fund shall have delivered to the Acquiring Fund on the Closing Date a certificate executed in the Target Fund's name by the Target Fund's Chief Administrative Officer or Vice President and Controller, in form and substance satisfactory to the Acquiring Fund and dated as of the Closing Date, to such effect and as to such other matters as the Acquiring Fund shall reasonably request.

7.2 The Target Fund shall have delivered to the Acquiring Fund a statement of the Target Fund's assets and liabilities, together with a list of the Target Fund's portfolio securities showing the tax basis of such securities by lot and the holding periods of such securities, as of the Closing Date, certified by the Controller of the Target Fund.

7.3 Prior to the Valuation Time, the Target Fund shall have declared the dividends and/or distributions contemplated by Section 1.4 and Section 8.5.

## ARTICLE VIII

### FURTHER CONDITIONS PRECEDENT

The obligations of the Target Fund and the Acquiring Fund hereunder shall also be subject to the fulfillment or waiver of the following conditions:

8.1 This Agreement and the transactions contemplated herein shall have been approved by the requisite vote of the holders of the outstanding shares of the Target Fund in accordance with applicable law and the provisions of the Target Fund's Declaration of Trust, Target Fund VMTP Statement and By-Laws. In addition, this Agreement, the issuance of Acquiring Fund Shares and the transactions contemplated herein shall have been approved by the requisite votes of the holders of the outstanding shares of the Acquiring Fund in accordance with applicable law, the requirements of the applicable exchanges and the provisions of the Acquiring Fund's Declaration of Trust, Acquiring Fund VMTP Statement and By-Laws.

8.2 On the Closing Date, the Commission shall not have issued an unfavorable report under Section 25(b) of the 1940 Act, or instituted any proceeding seeking to enjoin the consummation of the transactions contemplated by this Agreement under Section 25(c) of the 1940 Act. Furthermore, no action, suit or other proceeding shall be threatened or pending before any court or governmental agency in which it is sought to restrain or prohibit, or obtain damages or other relief in connection with this Agreement or the transactions contemplated herein.

8.3 All required consents of other parties and all other consents, orders, and permits of federal, state and local regulatory authorities (including those of the Commission and of state securities authorities, including any necessary no-action positions and exemptive orders from such federal and state authorities) to permit consummation of the transactions contemplated herein shall have been obtained.

8.4 The Registration Statement shall have become effective under the 1933 Act, and no stop orders suspending the effectiveness thereof shall have been issued. To the best knowledge of the parties to this Agreement, no investigation or proceeding for that purpose shall have been instituted or be pending, threatened or contemplated under the 1933 Act.

8.5 The Target Fund shall have declared prior to the Valuation Time a dividend or dividends which, together with all previous such dividends, shall have the effect of distributing to its shareholders at least all of the Target Fund's investment company taxable income for all taxable periods ending on or before the Closing Date (computed without regard to any deduction for dividends paid), if any, plus the excess of its interest income excludible from gross income under Section 103(a) of the Code, if any, over its deductions disallowed under Sections 265 and 171(a)(2) of the Code for all taxable periods ending on or before the Closing Date and all of its net capital gains realized in all taxable periods ending on or before the Closing Date (after reduction for any available capital loss carry forward).

8.6 The Target Fund shall have received on the Closing Date an opinion from Vedder Price P.C. dated as of the Closing Date, substantially to the effect that:

(a) The Acquiring Fund has been formed as a voluntary association with transferable shares of beneficial interest commonly referred to as a Massachusetts business trust, and is existing under the laws of the Commonwealth of Massachusetts and, to such counsel's knowledge, has the power as a business trust to own all of its properties and assets and to carry on its business as presently conducted, in each case as described in the Joint Proxy Statement/Prospectus.

(b) The Acquiring Fund is registered as a closed-end management investment company under the 1940 Act, and, to such counsel's knowledge, such registration under the 1940 Act is in full force and effect.

(c) Assuming that the Acquiring Fund Shares will be issued in accordance with the terms of this Agreement, the Acquiring Fund Shares to be issued and delivered to the Target Fund on behalf of its Target Fund Shareholders as provided by this Agreement are duly authorized and, upon such delivery, will be validly issued and fully paid and non-assessable by the Acquiring Fund, except that, as described in the Joint Proxy Statement/Prospectus, shareholders of the Acquiring Fund may, under certain circumstances, be held personally liable for its obligations, and no shareholder of the Acquiring Fund has, as such holder, any preemptive rights to acquire, purchase or subscribe for any securities of the Acquiring Fund under the Acquiring Fund's Declaration of Trust, By-Laws or Massachusetts law.

(d) The Registration Statement is effective and, to such counsel's knowledge, no stop order under the 1933 Act pertaining thereto has been issued.

(e) To the knowledge of such counsel, no consent, approval, authorization or order of any court or governmental authority of the United States or the Commonwealth of Massachusetts is required for consummation by the Acquiring Fund of the transactions contemplated herein, except as have been obtained.

(f) The execution and delivery of the Agreement by the Fund, did not, and the consummation by the Acquiring Fund of the transactions contemplated herein will not, violate the Acquiring Fund's Declaration of Trust, Acquiring Fund VMTP Statement or By-Laws (assuming the requisite approval of the Fund's shareholders has been obtained in accordance with its Declaration of Trust, Acquiring Fund VMTP Statement and By-Laws).

Insofar as the opinions expressed above relate to or are dependent upon matters that are governed by the laws of the Commonwealth of Massachusetts, Vedder Price P.C. may rely on the opinion of Bingham McCutchen LLP.

8.7 The Acquiring Fund shall have received on the Closing Date an opinion from Vedder Price P.C. dated as of the Closing Date, substantially to the effect that:

- (a) The Target Fund has been formed as a voluntary association with transferable shares of beneficial interest commonly referred to as a Massachusetts business trust, and is existing under the laws of the Commonwealth of Massachusetts and, to such counsel's knowledge, has the power as a business trust to own all of its properties and assets and to carry on its business as presently conducted, in each case as described in the Joint Proxy Statement/Prospectus.
- (b) The Target Fund is registered as a closed-end management investment company under the 1940 Act, and, to such counsel's knowledge, such registration under the 1940 Act is in full force and effect.
- (c) To the knowledge of such counsel, no consent, approval, authorization or order of any court or governmental authority of the United States or the Commonwealth of Massachusetts is required for consummation by the Target Fund of the transactions contemplated herein, except as have been obtained.
- (d) The execution and delivery of the Agreement by the Target Fund, did not, and the consummation by the Target Fund of the transactions contemplated herein will not, violate the Target Fund's Declaration of Trust, Target Fund VMTP Statement or By-Laws (assuming the requisite approval of the Fund's shareholders has been obtained in accordance with its Declaration of Trust, Target Fund VMTP Statement and By-Laws).

Insofar as the opinions expressed above relate to or are dependent upon matters that are governed by the laws of the Commonwealth of Massachusetts, Vedder Price P.C. may rely on the opinion of Bingham McCutchen LLP.

8.8 The Funds shall have received on the Closing Date an opinion of Vedder Price P.C. addressed to the Acquiring Fund and the Target Fund substantially to the effect that for federal income tax purposes:

- (a) The transfer of substantially all of the Target Fund's assets to the Acquiring Fund in exchange solely for Acquiring Fund Shares and the assumption by the Acquiring Fund of substantially all of the liabilities of the Target Fund followed by the distribution to Target Fund Shareholders of all the Acquiring Fund Shares received by the Target Fund in complete liquidation of the Target Fund will constitute a reorganization within the meaning of Section 368(a) of the Code and the Acquiring Fund and the Target Fund will each be a party to a reorganization, within the meaning of Section 368(b) of the Code, with respect to the Reorganization.
- (b) No gain or loss will be recognized by the Acquiring Fund upon the receipt of substantially all of the assets of the Target Fund solely in exchange for Acquiring Fund Shares and the assumption by the Acquiring Fund of substantially all of the liabilities of the Target Fund.
- (c) No gain or loss will be recognized by the Target Fund upon the transfer of substantially all of its assets to the Acquiring Fund solely in exchange for Acquiring Fund Shares and the assumption by the Acquiring Fund of substantially all of the liabilities of the Target Fund or upon the distribution (whether actual or constructive) of such Acquiring Fund Shares to Target Fund Shareholders solely in exchange for such shareholders' common shares and VMTP Shares of the Target Fund in complete liquidation of the Target Fund.

(d) No gain or loss will be recognized by the Target Fund Shareholders upon the exchange of their Target Fund shares solely for Acquiring Fund Shares in the Reorganization, except with respect to any cash received in lieu of a fractional Acquiring Fund Common Share.

(e) The aggregate basis of the Acquiring Fund Shares received by each Target Fund Shareholder pursuant to the Reorganization (including any fractional Acquiring Fund Common Share to which a Target Fund Common Shareholder would be entitled) will be the same as the aggregate basis of the Target Fund shares exchanged therefor by such shareholder. The holding period of the Acquiring Fund Shares received by each Target Fund Shareholder (including any fractional Acquiring Fund Common Share to which a Target Fund Common Shareholder would be entitled) will include the period during which the Target Fund shares exchanged therefor were held by such shareholder, provided such Target Fund shares are held as capital assets at the time of the Reorganization.

(f) The basis of the Target Fund's assets transferred to the Acquiring Fund will be the same as the basis of such assets to the Target Fund immediately before the Reorganization. The holding period of the assets of the Target Fund in the hands of the Acquiring Fund will include the period during which those assets were held by the Target Fund.

No opinion will be expressed as to (1) the effect of the Reorganization on (A) the Target Fund, the Acquiring Fund or any Target Fund Shareholder with respect to any asset as to which any unrealized gain or loss is required to be recognized under federal income tax principles (i) at the end of a taxable year (or on the termination thereof) or (ii) upon the transfer of such asset regardless of whether such transfer would otherwise be a non-taxable transaction under the Code, or (B) the Target Fund, the Acquiring Fund or any Target Fund Shareholder with respect to any stock held in a passive foreign investment company as defined in Section 1297(a) of the Code or (2) any other federal tax issues (except those set forth above) and all state, local or foreign tax issues of any kind.

Such opinion shall be based on customary assumptions and such representations as Vedder Price P.C. may reasonably request of the Funds, and the Target Fund and the Acquiring Fund will cooperate to make and certify the accuracy of such representations. Notwithstanding anything herein to the contrary, neither the Acquiring Fund nor the Target Fund may waive the conditions set forth in this Section 8.8. Insofar as the opinions expressed above relate to or are dependent upon the classification of the Acquiring Fund VMTP Shares as equity securities for U.S. federal income tax purposes, Vedder Price P.C. may rely on the opinion of K&L Gates LLP with respect to such issue.

8.9 The Acquiring Fund shall have obtained written confirmation from Fitch, Inc. or such other rating agencies then rating the VMTP Shares, that (a) consummation of the transactions contemplated by this Agreement will not impair the then current rating assigned by such rating agencies to the existing Acquiring Fund VMTP Shares and (b) the Acquiring Fund VMTP Shares to be issued pursuant to Section 1.1 will be rated by such rating agencies no less than the then current rating assigned by such rating agencies to the Target Fund VMTP Shares exchanged therefor.

## ARTICLE IX

### EXPENSES

9.1 The expenses incurred in connection with the Reorganization (whether or not the Reorganization is consummated) will be allocated between the Funds pro-rata based on the projected

relative benefits to each Fund during the first year following the Reorganization and each Fund shall have accrued such expenses as liabilities at or before the Valuation Time. Reorganization expenses include, without limitation: (a) expenses associated with the preparation and filing of the Registration Statement and other Proxy Materials; (b) postage; (c) printing; (d) accounting fees; (e) legal fees incurred by each Fund; (f) solicitation costs of the transactions; and (g) other related administrative or operational costs.

9.2 Each party represents and warrants to the other party that there is no person or entity entitled to receive any broker's fees or similar fees or commission payments in connection with the transactions provided for herein.

9.3 Notwithstanding the foregoing, expenses will in any event be paid by the party directly incurring such expenses if and to the extent that the payment by another party of such expenses would result in the disqualification of the Target Fund or the Acquiring Fund, as the case may be, as a RIC.

## ARTICLE X

### ENTIRE AGREEMENT; SURVIVAL OF WARRANTIES

10.1 The parties agree that neither party has made to the other party any representation, warranty and/or covenant not set forth herein, and that this Agreement constitutes the entire agreement between the parties.

10.2 The representations, warranties, and covenants contained in this Agreement or in any document delivered pursuant to or in connection with this Agreement shall not survive the consummation of the transactions contemplated hereunder.

## ARTICLE XI

### TERMINATION

11.1 This Agreement may be terminated by the mutual agreement of the parties and such termination may be effected by each Fund's Chief Administrative Officer or any Vice President without further action by the Target Fund Board or the Acquiring Fund Board. In addition, this Agreement may be terminated at or before the Closing Date due to:

- (a) a breach by the non-terminating party of any representation, warranty, or agreement contained herein to be performed at or before the Closing Date, if not cured within 30 days;
- (b) a condition precedent to the obligations of the terminating party that has not been met or waived and it reasonably appears that it will not or cannot be met; or
- (c) a determination by the Target Fund Board or the Acquiring Fund Board that the consummation of the transactions contemplated herein is not in the best interests of the Target Fund or Acquiring Fund, respectively.

11.2 In the event of any such termination, in the absence of willful default, there shall be no liability for damages on the part of the Acquiring Fund Board, the Target Fund Board, the Target Fund, the Acquiring Fund, the Adviser, or any Fund's or Adviser's officers.



**ARTICLE XII**

**AMENDMENTS**

12.1 This Agreement may be amended, modified, or supplemented in such manner as may be mutually agreed upon in writing by the officers of each Fund as specifically authorized by each Fund's Board of Trustees; *provided, however*, that following the meeting of the shareholders of the Funds called by each Fund pursuant to Section 5.2 of this Agreement, no such amendment, modification or supplement may have the effect of changing the provisions for determining the number of Acquiring Fund Shares to be issued to the Target Fund Shareholders under this Agreement to the detriment of such shareholders without their further approval.

**ARTICLE XIII**

**HEADINGS; COUNTERPARTS; GOVERNING LAW; ASSIGNMENT; LIMITATION OF LIABILITY**

13.1 The article and section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

13.2 This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

13.3 This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

13.4 This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns, and no assignment or transfer hereof or of any rights or obligations hereunder shall be made by either party without the written consent of the other party. Nothing herein expressed or implied is intended or shall be construed to confer upon or give any person, firm, or corporation, other than the parties hereto and their respective successors and assigns, any rights or remedies under or by reason of this Agreement.

13.5 It is expressly agreed that the obligations of each Fund hereunder shall not be binding upon any of the Board members, shareholders, nominees, officers, agents, or employees of a Fund personally, but shall bind only the property of a Fund, as provided in each Fund's Declaration of Trust, which is on file with the Secretary of State of the Commonwealth of Massachusetts. The execution and delivery of this Agreement have been authorized by each Fund's Board of Trustees, and this Agreement has been signed by authorized officers of each Fund acting as such. Neither the authorization by such Board members nor the execution and delivery by such officers shall be deemed to have been made by any of them individually or to impose any liability on any of them personally, but shall bind only the property of a Fund as provided in its Declaration of Trust.

*[Remainder of Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the parties have duly executed this Agreement, all as of the date first written above.

**NUVEEN MUNICIPAL HIGH INCOME  
OPPORTUNITY FUND**

By:

Name: Kevin J. McCarthy

Title: Vice President and Secretary

ACKNOWLEDGED:

By:

Name:

**NUVEEN MUNICIPAL HIGH INCOME  
OPPORTUNITY FUND 2**

By:

Name: Kevin J. McCarthy

Title: Vice President and Secretary

ACKNOWLEDGED:

By:

Name:

**EXHIBIT A**

| <b>Target Fund Preferred Shares Outstanding</b> | <b>Acquiring Fund Preferred Shares to be Issued in<br/>the Reorganization</b> |
|---|---|
| VMTP Shares, Series 2016                        | VMTP Shares, Series 2016 #1   |
| \$100,000 liquidation value per share           | \$100,000 liquidation value per share   |
| Term Redemption Date:                           | Term Redemption Date:   |
| January 1, 2016                                 | January 1, 2016   |

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## APPENDIX B

## FINANCIAL HIGHLIGHTS

Information contained in the tables below under the headings "Per Share Operating Performance" and "Ratios/Supplemental Data" shows the operating performance for the life of the Fund.

## Acquiring Fund

The following financial highlights table is intended to help you understand the Fund's financial performance. Certain information reflects financial results for a single Fund common share outstanding throughout each period. The information in the financial highlights is derived from the Fund's financial statements. The Fund's annual financial statements as of October 31, 2012, including the financial highlights for each of the five years in the period then ended, have been audited by Ernst & Young LLP, independent registered public accounting firm. The Annual Report may be obtained without charge by calling (800) 257-8787.

| Per Share Operating Performance  | Year Ended October 31 |                   |                   |                   |                   |                   |                   |                   |                   |
|--|-----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | 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)   | 0.91                  | 0.96              | 1.04              | 1.06              | 1.29              | 1.23              | 1.21              | 1.22              | 0.98              |
| Net Realized/Unrealized Gain (Loss)  | 1.78                  | (0.57)            | 0.89              | 1.48              | (5.71)            | (0.66)            | 0.65              | 0.54              | 0.71              |
| Distributions from Net Investment Income to Auction Rate Preferred Shareholders(a) | 0.00                  | (0.01)            | (0.01)            | (0.04)            | (0.23)            | (0.24)            | (0.19)            | (0.13)            | (0.08)            |
| Distributions from Capital Gains to Auction Rate Preferred Shareholders(a)         | 0.00                  | 0.00              | 0.00              | 0.00              | (0.02)            | 0.00*             | 0.00              | (0.01)            | 0.00              |
| <b>Total</b>   | <b>2.69</b>           | <b>0.38</b>       | <b>1.92</b>       | <b>2.50</b>       | <b>(4.67)</b>     | <b>0.33</b>       | <b>1.67</b>       | <b>1.62</b>       | <b>1.61</b>       |
| Less Distributions:  |                       |                   |                   |                   |                   |                   |                   |                   |                   |
| Net Investment Income to Common Shareholders                                       | (0.90)                | (0.96)            | (1.01)            | (1.04)            | (0.98)            | (0.98)            | (1.04)            | (1.07)            | (0.89)            |
| Capital Gains to Common Shareholders   | 0.00                  | 0.00              | 0.00              | 0.00              | (0.09)            | 0.00*             | 0.00              | (0.06)            | 0.00              |
| <b>Total</b>   | <b>(0.90)</b>         | <b>(0.96)</b>     | <b>(1.01)</b>     | <b>(1.04)</b>     | <b>(1.07)</b>     | <b>(0.98)</b>     | <b>(1.04)</b>     | <b>(1.13)</b>     | <b>(0.89)</b>     |
| Premium from Common Shares Sold through Shelf Offering                             | 0.07                  | 0.04              | 0.04              | 0.09              | 0.01              | 0.01              | 0.00              | 0.00              | 0.00              |
| Offering Costs and Auction Rate Preferred Share Underwriting Discounts             | 0.00*                 | 0.00*             | 0.00*             | 0.00*             | 0.00*             | 0.00              | 0.01              | 0.00              | (0.18)            |
| Ending Common Share Net Asset Value  | \$ 13.45              | \$ 11.59          | \$ 12.13          | \$ 11.18          | \$ 9.63           | \$ 15.36          | \$ 16.00          | \$ 15.36          | \$ 14.87          |
| 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>  | <b>\$ 402,573</b>     | <b>\$ 323,090</b> | <b>\$ 324,450</b> | <b>\$ 288,963</b> | <b>\$ 230,123</b> | <b>\$ 361,484</b> | <b>\$ 372,700</b> | <b>\$ 357,025</b> | <b>\$ 345,023</b> |

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|                             |           |           |            |            |            |            |            |            |            |
|-----------------------------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|
| Ending Net Assets           |           |           |            |            |            |            |            |            |            |
| Applicable to Common        |           |           |            |            |            |            |            |            |            |
| Shares (000)                |           |           |            |            |            |            |            |            |            |
| 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%      | 0.75%      | 0.74%      | 0.70%**    |
| 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  | \$         | \$         | \$         | \$         | \$         | \$         | \$         |

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- (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.

**Target Fund**

The following financial highlights table is intended to help you understand the Target Fund's financial performance. Certain information reflects financial results for a single Fund common share outstanding throughout each period. The information in the financial highlights is derived from the Fund's financial statements. The Fund's annual financial statements as of October 31, 2012, including the financial highlights for each of the five years in the period then ended, have been audited by Ernst & Young LLP, independent registered public accounting firm. The Annual Report may be obtained without charge by calling (800) 257-8787.

**High Income Opportunity Fund 2**

| Per Share Operating Performance   | Year Ended October 31 |               |               |               |               |
|---|-----------------------|---------------|---------------|---------------|---------------|
|   | 2012                  | 2011          | 2010          | 2009          | 2008(g)       |
| Beginning Common Share Net Asset Value  | \$ 11.17              | \$ 11.92      | \$ 10.88      | \$ 9.13       | \$ 14.33      |
| Investment Operations:  |                       |               |               |               |               |
| Net Investment Income (Loss)  | 0.88                  | 0.87          | 0.91          | 0.92          | 0.89          |
| Net Realized/ Unrealized Gain (Loss)  | 1.75                  | (0.78)        | 1.04          | 1.79          | (5.27)        |
| Distributions from Net Investment Income to Auction Rate Preferred Shareholders(a)    | 0.00                  | 0.00          | 0.00          | 0.00          | 0.00          |
| Distributions from Capital Gains to Auction Rate Preferred Shareholders(a)            | 0.00                  | 0.00          | 0.00          | 0.00          | 0.00          |
| <b>Total</b>  | <b>2.63</b>           | <b>0.09</b>   | <b>1.95</b>   | <b>2.71</b>   | <b>(4.38)</b> |
| Less Distributions:   |                       |               |               |               |               |
| Net Investment Income to Common Shareholders  | (0.79)                | (0.87)        | (0.96)        | (0.96)        | (0.79)        |
| Capital Gains to Common Shareholders  | 0.00                  | 0.00          | 0.00          | 0.00          | 0.00          |
| <b>Total</b>  | <b>(0.79)</b>         | <b>(0.87)</b> | <b>(0.96)</b> | <b>(0.96)</b> | <b>(0.79)</b> |
| Premium from Common Shares Sold through Shelf Offering                                | 0.04                  | 0.03          | 0.07          | 0.00          | 0.00          |
| Offering Costs and Preferred Share Underwriting Discounts                             | 0.00                  | 0.00*         | (0.02)        | 0.00          | (0.03)        |
| Ending Common Share Net Asset Value   | \$ 13.05              | \$ 11.17      | \$ 11.92      | \$ 10.88      | \$ 9.13       |
| Ending Market Value   | \$ 13.11              | \$ 11.00      | \$ 12.59      | \$ 11.39      | \$ 10.04      |
| Total Returns:  |                       |               |               |               |               |
| Based on Market Value(b)  | 27.09%                | (5.26)%       | 20.03%        | 25.45%        | (28.82)%      |
| Based on Common Share Net Asset Value(b)  | 24.56%                | 1.55%         | 19.12%        | 32.43%        | (32.15)%      |
| <b>Ratios/Supplemental Data</b>   |                       |               |               |               |               |
| Ending Net Assets Applicable to Common Shares (000)                                   | \$ 242,636            | \$ 199,425    | \$ 206,339    | \$ 174,353    | \$ 144,745    |
| Ratios to Average Net Assets Applicable to Common Shares Before Reimbursement(c)(d)   |                       |               |               |               |               |
| Expenses(f)   | 1.47%                 | 1.61%         | 1.50%         | 1.50%         | 1.19%**       |
| Net Investment Income (Loss)  | 7.21%                 | 8.04%         | 7.95%         | 10.07%        | 6.69%**       |
| Ratios to Average Net Assets Applicable to Common Shares After Reimbursement(c)(d)(e) |                       |               |               |               |               |
| Expenses(f)   | N/A                   | N/A           | N/A           | N/A           | 0.82%**       |
| Net Investment Income (Loss)  | N/A                   | N/A           | N/A           | N/A           | 7.06%**       |
| Portfolio Turnover Rate   | 8%                    | 17%           | 19%           | 45%           | 22%           |
| Borrowings at the End of Period:  |                       |               |               |               |               |
| Aggregate Amount Outstanding (000)  | \$ 35,000             | \$ 35,000     | \$ 35,000     | \$ 35,000     | \$ 40,000     |
| Asset Coverage Per \$1,000  | \$ 7,932              | \$ 6,698      | \$ 6,895      | \$ 5,982      | \$ 4,619      |

(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.

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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) Net Investment Income (Loss) ratios reflect income earned and expenses incurred on assets attributable to Borrowings, where applicable.
- (d) Ratios do not reflect the effect of custodian fee credits earned on the Fund's net cash deposit with the custodian bank or legal fee refund, where applicable.
- (e) After expense reimbursement from the Adviser, where applicable. Ratios do not reflect the effect of custodian fee credits earned on the Fund's net cash on deposit with the custodian bank, where applicable. As of August 31, 2008 the Adviser is no longer reimbursing the Fund for any fees and 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 the 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 Footnote 8 Borrowing Arrangements, respectively, in the most recent shareholder report, as follows:

**Year Ended 10/31:**

|         |        |
|---------|--------|
| 2012    | 0.21%  |
| 2011    | 0.23   |
| 2010    | 0.25   |
| 2009    | 0.26   |
| 2008(g) | 0.30** |

(g) For the period November 15, 2007 (commencement of operations) through October 31, 2008.

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

\*\* Annualized.

N/A Fund no longer has a contractual reimbursement agreement with the Adviser.

## APPENDIX C

## BENEFICIAL OWNERSHIP

## Beneficial Ownership

The following table lists the dollar range of equity securities beneficially owned by each Board Member and Board Member Nominee and for the Board Members and Board Member Nominees as a group in each Fund and in all Nuveen funds overseen by the Board Member nominee as of December 31, 2012.

## Dollar Range of Equity Securities

| Board Member Nominees   | Municipal<br>High Income | Municipal<br>High Income 2 | Family of<br>Investment<br>Companies <sup>(1)</sup> |
|---|--------------------------|----------------------------|---|
| <b>Board Members/Nominees who are not interested persons of the Funds</b> |                          |                            |   |
| Robert P. Bremner   |                          |                            | over \$ 100,000                                     |
| Jack B. Evans   |                          |                            | over \$ 100,000                                     |
| William C. Hunter   |                          |                            | over \$ 100,000                                     |
| David J. Kundert  |                          |                            | over \$ 100,000                                     |
| William J. Schneider  |                          |                            | over \$ 100,000                                     |
| Judith M. Stockdale   |                          |                            | over \$ 100,000                                     |
| Carole E. Stone   |                          |                            | over \$ 100,000                                     |
| Virginia L. Stringer  |                          |                            | over \$ 100,000                                     |
| Terence J. Toth   |                          |                            | over \$ 100,000                                     |
| <b>Board Member/Nominee who is an interested person of the Funds</b>      |                          |                            |   |
| John P. Amboian   |                          |                            | over \$ 100,000                                     |

- (1) The amounts reflect the aggregate dollar range of equity securities and the number of shares beneficially owned by the Board Member in the Funds and in all Nuveen funds overseen by the Board Member.

The following table sets forth, for each Board Member and Board Member Nominee and for the Board Members and Board Member Nominees and officers as a group, the amount of shares beneficially owned in each Fund as of December 31, 2012. The information as to beneficial ownership is based on statements furnished by each Board Member and officer.

**Fund Shares Owned By Board Members And Officers<sup>(1)</sup>**

| <b>Board Member Nominees</b>                     | <b>Municipal<br/>High Income</b> | <b>Municipal<br/>High Income 2</b> |
|--|----------------------------------|------------------------------------|
| <b>Independent Board Members/Nominees</b>        | 0                                | 0                                  |
| Robert P. Bremner                                | 0                                | 0                                  |
| Jack B. Evans                                    | 0                                | 0                                  |
| William C. Hunter                                | 0                                | 0                                  |
| David J. Kundert                                 | 0                                | 0                                  |
| William J. Schneider                             | 0                                | 0                                  |
| Judith M. Stockdale                              | 0                                | 0                                  |
| Carole E. Stone                                  | 0                                | 0                                  |
| Virginia L. Stringer                             | 0                                | 0                                  |
| Terence J. Toth                                  | 0                                | 0                                  |
| <b>Non-Independent Board Member/Nominee</b>      |                                  |                                    |
| John P. Amboian                                  | 0                                | 0                                  |
| <b>All Board Members and Officers as a Group</b> | 0                                | 0                                  |

(1) The numbers include share equivalents of certain Nuveen funds in which the Board Member is deemed to be invested pursuant to the Deferred Compensation Plan.

**APPENDIX D**

**NUMBER OF BOARD AND COMMITTEE MEETINGS HELD DURING**

**EACH FUND'S LAST FISCAL YEAR**

| <b>Fund</b>             | <b>Regular Board Meeting</b> | <b>Special Board Meeting</b> | <b>Executive Committee Meeting</b> | <b>Dividend Committee Meeting</b> | <b>Compliance, Risk Management and Regulatory Oversight Committee Meeting</b> | <b>Audit Committee Meeting</b> | <b>Nominating and Governance Committee Meeting</b> | <b>Closed-End Fund Committee Meeting</b> |
|-------------------------|------------------------------|------------------------------|------------------------------------|-----------------------------------|---|--------------------------------|--|--|
| Municipal High Income   | 6                            | 6                            | 0                                  | 4                                 | 6   | 4                              | 6  | 3  |
| Municipal High Income 2 | 6                            | 6                            | 0                                  | 4                                 | 6   | 4                              | 6  | 3  |

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**APPENDIX E**

**NUVEEN FUND BOARD**

**AUDIT COMMITTEE CHARTER**

**I. Organization and Membership**

There shall be a committee of each Board of Directors/Trustees (the Board) of the Nuveen Management Investment Companies (the Funds or, individually, a Fund) to be known as the Audit Committee. The Audit Committee shall be comprised of at least three Directors/Trustees. Audit Committee members shall be independent of the Funds and free of any relationship that, in the opinion of the Directors/Trustees, would interfere with their exercise of independent judgment as an Audit Committee member. In particular, each member must meet the independence and experience requirements applicable to the Funds of the exchanges on which shares of the Funds are listed, Section 10A of the Securities Exchange Act of 1934 (the Exchange Act), and the rules and regulations of the Securities and Exchange Commission (the Commission). Each such member of the Audit Committee shall have a basic understanding of finance and accounting, be able to read and understand fundamental financial statements, and be financially literate, and at least one such member shall have accounting or related financial management expertise, in each case as determined by the Directors/Trustees, exercising their business judgment (this person may also serve as the Audit Committee's financial expert as defined by the Commission). The Board shall appoint the members and the Chairman of the Audit Committee, on the recommendation of the Nominating and Governance Committee. The Audit Committee shall meet periodically but in any event no less frequently than on a semi-annual basis. Except for the Funds, Audit Committee members shall not serve simultaneously on the audit committees of more than two other public companies.

**II. Statement of Policy, Purpose and Processes**

The Audit Committee shall assist the Board in oversight and monitoring of (1) the accounting and reporting policies, processes and practices, and the audits of the financial statements, of the Funds; (2) the quality and integrity of the financial statements of the Funds; (3) the Funds compliance with legal and regulatory requirements, (4) the independent auditors' qualifications, performance and independence; and (5) oversight of the Pricing Procedures of the Funds and the Valuation Group. In exercising this oversight, the Audit Committee can request other committees of the Board to assume responsibility for some of the monitoring as long as the other committees are composed exclusively of independent directors.

In doing so, the Audit Committee shall seek to maintain free and open means of communication among the Directors/Trustees, the independent auditors, the internal auditors and the management of the Funds. The Audit Committee shall meet periodically with Fund management, the Funds' internal auditor, and the Funds' independent auditors, in separate executive sessions. The Audit Committee shall prepare reports of the Audit Committee as required by the Commission to be included in the Fund's annual proxy statements or otherwise.

The Audit Committee shall have the authority and resources in its discretion to retain special legal, accounting or other consultants to advise the Audit Committee and to otherwise discharge its responsibilities, including appropriate funding as determined by the Audit Committee for compensation to independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for a Fund, compensation to advisers employed by

the Audit Committee, and ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties, as determined in its discretion. The Audit Committee may request any officer or employee of Nuveen Investments, Inc. (or its affiliates) (collectively, Nuveen ) or the Funds independent auditors or outside counsel to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Funds independent auditors and internal auditors shall have unrestricted accessibility at any time to Committee members.

### **Responsibilities**

Fund management has the primary responsibility to establish and maintain systems for accounting, reporting, disclosure and internal control.

The independent auditors have the primary responsibility to plan and implement an audit, with proper consideration given to the accounting, reporting and internal controls. Each independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Funds shall report directly to the Audit Committee. The independent auditors are ultimately accountable to the Board and the Audit Committee. It is the ultimate responsibility of the Audit Committee to select, appoint, retain, evaluate, oversee and replace any independent auditors and to determine their compensation, subject to ratification of the Board, if required. These Audit Committee responsibilities may not be delegated to any other Committee or the Board.

The Audit Committee is responsible for the following:

#### **With respect to Fund financial statements:**

1. Reviewing and discussing the annual audited financial statements and semi-annual financial statements with Fund management and the independent auditors including major issues regarding accounting and auditing principles and practices, and the Funds disclosures in its periodic reports under Management s Discussion and Analysis.
2. Requiring the independent auditors to deliver to the Chairman of the Audit Committee a timely report on any issues relating to the significant accounting policies, management judgments and accounting estimates or other matters that would need to be communicated under Statement on Auditing Standards (SAS) No. 90, Audit Committee Communications (which amended SAS No. 61, Communication with Audit Committees), that arise during the auditors review of the Funds financial statements, which information the Chairman shall further communicate to the other members of the Audit Committee, as deemed necessary or appropriate in the Chairman s judgment.
3. Discussing with management the Funds press releases regarding financial results and dividends, as well as financial information and earnings guidance provided to analysts and rating agencies. This discussion may be done generally, consisting of discussing the types of information to be disclosed and the types of presentations to be made. The Chairman of the Audit Committee shall be authorized to have these discussions with management on behalf of the Audit Committee.
4. Discussing with management and the independent auditors (a) significant financial reporting issues and judgments made in connection with the preparation and presentation of the Funds financial statements, including any significant changes in the

Funds' selection or application of accounting principles and any major issues as to the adequacy of the Funds' internal controls and any special audit steps adopted in light of material control deficiencies; and (b) analyses prepared by Fund management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

5. Discussing with management and the independent auditors the effect of regulatory and accounting initiatives on the Funds' financial statements.
6. Reviewing and discussing reports, both written and oral, from the independent auditors and/or Fund management regarding (a) all critical accounting policies and practices to be used; (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative treatments and disclosures, and the treatment preferred by the independent auditors; and (c) other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
7. Discussing with Fund management the Funds' major financial risk exposures and the steps management has taken to monitor and control these exposures, including the Funds' risk assessment and risk management policies and guidelines. In fulfilling its obligations under this paragraph, the Audit Committee may review in a general manner the processes other Board committees have in place with respect to risk assessment and risk management.
8. Reviewing disclosures made to the Audit Committee by the Funds' principal executive officer and principal financial officer during their certification process for the Funds' periodic reports about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Funds' internal controls. In fulfilling its obligations under this paragraph, the Audit Committee may review in a general manner the processes other Board committees have in place with respect to deficiencies in internal controls, material weaknesses, or any fraud associated with internal controls.

**With respect to the independent auditors:**

1. Selecting, appointing, retaining or replacing the independent auditors, subject, if applicable, only to Board and shareholder ratification; and compensating, evaluating and overseeing the work of the independent auditor (including the resolution of disagreements between Fund management and the independent auditor regarding financial reporting).
2. Meeting with the independent auditors and Fund management to review the scope, fees, audit plans and staffing for the audit, for the current year. At the conclusion of the audit, reviewing such audit results, including the independent auditors' evaluation of the Funds' financial and internal controls, any comments or recommendations of the independent auditors, any audit problems or difficulties and management's response,

including any restrictions on the scope of the independent auditor's activities or on access to requested information, any significant disagreements with management, any accounting adjustments noted or proposed by the auditor but not made by the Fund, any communications between the audit team and the audit firm's national office regarding auditing or accounting issues presented by the engagement, any significant changes required from the originally planned audit programs and any adjustments to the financial statements recommended by the auditors.

3. Pre-approving all audit services and permitted non-audit services, and the terms thereof, to be performed for the Funds by their independent auditors, subject to the de minimis exceptions for non-audit services described in Section 10A of the Exchange Act that the Audit Committee approves prior to the completion of the audit, in accordance with any policies or procedures relating thereto as adopted by the Board or the Audit Committee. The Chairman of the Audit Committee shall be authorized to give pre-approvals of such non-audit services on behalf of the Audit Committee.
4. Obtaining and reviewing a report or reports from the independent auditors at least annually (including a formal written statement delineating all relationships between the auditors and the Funds consistent with Independent Standards Board Standard 1, as may be amended, restated, modified or replaced) regarding (a) the independent auditor's internal quality-control procedures; (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years, respecting one or more independent audits carried out by the firm; (c) any steps taken to deal with any such issues; and (d) all relationships between the independent auditor and the Funds and their affiliates, in order to assist the Audit committee in assessing the auditor's independence. After reviewing the foregoing report[s] and the independent auditor's work throughout the year, the Audit Committee shall be responsible for evaluating the qualifications, performance and independence of the independent auditor and their compliance with all applicable requirements for independence and peer review, and a review and evaluation of the lead partner, taking into account the opinions of Fund management and the internal auditors, and discussing such reports with the independent auditors. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board.
5. Reviewing any reports from the independent auditors mandated by Section 10A(b) of the Exchange Act regarding any illegal act detected by the independent auditor (whether or not perceived to have a material effect on the Funds' financial statements) and obtaining from the independent auditors any information about illegal acts in accordance with Section 10A(b).
6. Ensuring the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law, and further considering the rotation of the independent auditor firm itself.
7. Establishing and recommending to the Board for ratification policies for the Funds, Fund management or the Fund adviser's hiring of employees or former employees of the independent auditor who participated in the audits of the Funds.



8. Taking, or recommending that the Board take, appropriate action to oversee the independence of the outside auditor.

**With respect to any internal auditor:**

1. Reviewing the proposed programs of the internal auditor for the coming year. It is not the obligation or responsibility of the Audit Committee to confirm the independence of any Nuveen internal auditors performing services relating to the Funds or to approve any termination or replacement of the Nuveen Manager of Internal Audit.
2. Receiving a summary of findings from any completed internal audits pertaining to the Funds and a progress report on the proposed internal audit plan for the Funds, with explanations for significant deviations from the original plan.

**With respect to pricing and valuation oversight:**

1. The Board has responsibilities regarding the pricing of a Fund's securities under the 1940 Act. The Board has delegated this responsibility to the Committee to address valuation issues that arise between Board meetings, subject to the Board's general supervision of such actions. The Committee is primarily responsible for the oversight of the Pricing Procedures and actions taken by the internal Valuation Group ( Valuation Matters ). The Valuation Group will report on Valuation Matters to the Committee and/or the Board of Directors/Trustees, as appropriate.
2. Performing all duties assigned to it under the Funds' Pricing Procedures, as such may be amended from time to time.
3. Periodically reviewing and making recommendations regarding modifications to the Pricing Procedures as well as consider recommendations by the Valuation Group regarding the Pricing Procedures.
4. Reviewing any issues relating to the valuation of a Fund's securities brought to the Committee's attention, including suspensions in pricing, pricing irregularities, price overrides, self-pricing, NAV errors and corrections thereto, and other pricing matters. In this regard, the Committee should consider the risks to the Funds in assessing the possible resolutions of these Valuation Matters.
5. Evaluating, as it deems necessary or appropriate, the performance of any pricing agent and recommending changes thereto to the full Board.
6. Reviewing any reports or comments from examinations by regulatory authorities relating to Valuation Matters of the Funds and considering management's responses to any such comments and, to the extent the Committee deems necessary or appropriate, proposing to management and/or the full Board the modification of the Fund's policies and procedures relating to such matters. The Committee, if deemed necessary or desirable, may also meet with regulators.
7. Meeting with members of management of the Funds, outside counsel, or others in fulfilling its duties hereunder, including assessing the continued appropriateness and

adequacy of the Pricing Procedures, eliciting any recommendations for improvements of such procedures or other Valuation Matters, and assessing the possible resolutions of issues regarding Valuation Matters brought to its attention.

8. Performing any special review, investigations or oversight responsibilities relating to Valuation as requested by the Board of Directors/Trustees.
9. Investigating or initiating an investigation of reports of improprieties or suspected improprieties in connection with the Fund's policies and procedures relating to Valuation Matters not otherwise assigned to another Board committee.

**Other responsibilities:**

1. Reviewing with counsel to the Funds, counsel to Nuveen, the Fund adviser's counsel and independent counsel to the Board legal matters that may have a material impact on the Fund's financial statements or compliance policies.
2. Receiving and reviewing periodic or special reports issued on exposure/controls, irregularities and control failures related to the Funds.
3. Reviewing with the independent auditors, with any internal auditor and with Fund management, the adequacy and effectiveness of the accounting and financial controls of the Funds, and eliciting any recommendations for the improvement of internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose payments, transactions or procedures that might be deemed illegal or otherwise improper.
4. Reviewing the reports of examinations by regulatory authorities as they relate to financial statement matters.
5. Discussing with management and the independent auditor any correspondence with regulators or governmental agencies that raises material issues regarding the Funds' financial statements or accounting policies.
6. Obtaining reports from management with respect to the Funds' policies and procedures regarding compliance with applicable laws and regulations.
7. Reporting regularly to the Board on the results of the activities of the Audit Committee, including any issues that arise with respect to the quality or integrity of the Funds' financial statements, the Funds' compliance with legal or regulatory requirements, the performance and independence of the Funds' independent auditors, or the performance of the internal audit function.
8. Performing any special reviews, investigations or oversight responsibilities requested by the Board.
9. Reviewing and reassessing annually the adequacy of this charter and recommending to the Board approval of any proposed changes deemed necessary or advisable by the Audit Committee.

10. Undertaking an annual review of the performance of the Audit Committee.

11. Establishing procedures for the receipt, retention and treatment of complaints received by the Funds regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission of concerns regarding questionable accounting or auditing matters by employees of Fund management, the investment adviser, administrator, principal underwriter, or any other provider of accounting-related services for the Funds, as well as employees of the Funds.

Although the Audit Committee shall have the authority and responsibilities set forth in this Charter, it is not the responsibility of the Audit Committee to plan or conduct audits or to determine that the Funds' financial statements are complete and accurate and are in accordance with generally accepted accounting principles. That is the responsibility of management and the independent auditors. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditors or to ensure compliance with laws and regulations.

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Nuveen Investments

333 West Wacker Drive

Chicago, IL 60606-1286

(800) 257-8787

[www.nuveen.com](http://www.nuveen.com)

NMZ-0513

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**Card and return in the**

**postage-paid envelope**

**VOTE IN PERSON**

**Attend Shareholder Meeting**

**333 West Wacker Dr.**

**Chicago, IL 60606**

**on May 16, 2013**

Please detach at perforation before mailing.

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND**

**PROXY**

**ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON MAY 16, 2013**

**COMMON SHARES**

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**THIS PROXY IS BEING SOLICITED BY THE BOARD OF TRUSTEES.** The undersigned shareholder(s) of the Nuveen Municipal High Income Opportunity Fund, revoking previous proxies, hereby appoints Gifford R. Zimmerman, Kevin J. McCarthy and Kathleen Prudhomme, or any one of them true and lawful attorneys with power of substitution of each, to vote all shares of Nuveen Municipal High Income Opportunity Fund which the undersigned is entitled to vote, at the Annual Meeting of Shareholders to be held on May 16, 2013, at 2:00 p.m. Central time, at the offices of Nuveen Investments, 333 West Wacker Drive, Chicago, Illinois, 60606, and at any adjournment thereof as indicated on the reverse side. In their discretion, the proxy holders named above are authorized to vote upon such other matters as may properly come before the meeting or any adjournment thereof.

**Receipt of the Notice of the Annual Meeting and the accompanying Proxy Statement/Prospectus is hereby acknowledged. The shares of Nuveen Municipal High Income Opportunity Fund represented hereby will be voted as indicated or FOR the proposal if no choice is indicated.**

**VOTE VIA THE INTERNET: [www.proxy-direct.com](http://www.proxy-direct.com)**

**VOTE VIA THE TELEPHONE: 1-800-337-3503**

**Note:** Please sign exactly as your name(s) appear(s) on this card. When signing as attorney, executor, administrator, trustee, guardian or as custodian for a minor, please sign your name and give your full title as such. If signing on behalf of a corporation, please sign the full corporate name and your name and indicate your title. If you are a partner signing for a partnership, please sign the partnership name, your name and indicate your title. Joint owners should each sign these instructions. Please sign, date and return.

Signature and Title, if applicable

Signature (if held jointly)

Date

NMZ\_24451\_031913

**EVERY SHAREHOLDER S VOTE IS IMPORTANT**

**Important Notice Regarding the Availability of Proxy Materials for the  
Nuveen Municipal High Income Opportunity Fund  
Shareholders Meeting to Be Held on May 16, 2013.**

**The Proxy Statement and Proxy Card for this meeting are available at:**

**<http://www.nuveenproxy.com/ProxyInfo/CEF/Default.aspx>**

**IF YOU VOTE ON THE INTERNET OR BY TELEPHONE,  
YOU NEED NOT RETURN THIS PROXY CARD**

Please detach at perforation before mailing.

In their discretion, the proxy holders are authorized to vote upon such other matters as may properly come before the meeting or any adjournment thereof.

**Properly executed proxies will be voted as specified. If no other specification is made, such shares will be voted FOR each proposal.**

**TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK. Example:  $\phi$**

|                               | FOR | WITHHOLD | FOR ALL |
|-------------------------------|-----|----------|---------|
| 1. Election of Board Members: | ALL | ALL      | EXCEPT  |
| Class I:                      | ..  | ..       | ..      |
| 01. Judith M. Stockdale       | ..  | ..       | ..      |
| 02. Carole E. Stone           | ..  | ..       | ..      |
| 03. Virginia L. Stringer      | ..  | ..       | ..      |

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark the box FOR ALL EXCEPT and write the nominee s number on the line provided below.

|  |     |         |         |
|--|-----|---------|---------|
| 3. To approve the issuance of additional common shares in connection with the reorganization pursuant to the Agreement and Plan of Reorganization. | FOR | AGAINST | ABSTAIN |
|  | ..  | ..      | ..      |

**WE URGE YOU TO SIGN, DATE AND MAIL THIS PROXY PROMPTLY**

**NMZ\_24451\_031913**

**EVERY SHAREHOLDER S VOTE IS IMPORTANT**

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*available 24 hours*

**VOTE BY MAIL**

**Vote, sign and date this Proxy**

**Card and return in the**

**postage-paid envelope**

**VOTE IN PERSON**

**Attend Shareholder Meeting**

**333 West Wacker Dr.**

**Chicago, IL 60606**

**on May 16, 2013**

Please detach at perforation before mailing.

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND 2**

**PROXY**

**ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON MAY 16, 2013**

**COMMON SHARES**



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**THIS PROXY IS BEING SOLICITED BY THE BOARD OF TRUSTEES.** The undersigned shareholder(s) of the Nuveen Municipal High Income Opportunity Fund 2, revoking previous proxies, hereby appoints Gifford R. Zimmerman, Kevin J. McCarthy and Kathleen Prudhomme, or any one of them true and lawful attorneys with power of substitution of each, to vote all shares of Nuveen Municipal High Income Opportunity Fund 2 which the undersigned is entitled to vote, at the Annual Meeting of Shareholders to be held on May 16, 2013, at 2:00 p.m. Central time, at the offices of Nuveen Investments, 333 West Wacker Drive, Chicago, Illinois, 60606, and at any adjournment thereof as indicated on the reverse side. In their discretion, the proxy holders named above are authorized to vote upon such other matters as may properly come before the meeting or any adjournment thereof.

**Receipt of the Notice of the Annual Meeting and the accompanying Proxy Statement/Prospectus is hereby acknowledged. The shares of Nuveen Municipal High Income Opportunity Fund 2 represented hereby will be voted as indicated or FOR the proposal if no choice is indicated.**

**VOTE VIA THE INTERNET: [www.proxy-direct.com](http://www.proxy-direct.com)**

**VOTE VIA THE TELEPHONE: 1-800-337-3503**

**Note:** Please sign exactly as your name(s) appear(s) on this card. When signing as attorney, executor, administrator, trustee, guardian or as custodian for a minor, please sign your name and give your full title as such. If signing on behalf of a corporation, please sign the full corporate name and your name and indicate your title. If you are a partner signing for a partnership, please sign the partnership name, your name and indicate your title. Joint owners should each sign these instructions. Please sign, date and return.

Signature and Title, if applicable

Signature (if held jointly)

Date

NMD\_24451\_031913

**EVERY SHAREHOLDER'S VOTE IS IMPORTANT**

**Important Notice Regarding the Availability of Proxy Materials for the  
Nuveen Municipal High Income Opportunity Fund 2  
Shareholders Meeting to Be Held on May 16, 2013.**

The Proxy Statement and Proxy Card for this meeting are available at:

<http://www.nuveenproxy.com/ProxyInfo/CEF/Default.aspx>

**IF YOU VOTE ON THE INTERNET OR BY TELEPHONE,  
YOU NEED NOT RETURN THIS PROXY CARD**

Please detach at perforation before mailing.

In their discretion, the proxy holders are authorized to vote upon such other matters as may properly come before the meeting or any adjournment thereof.

Properly executed proxies will be voted as specified. If no other specification is made, such shares will be voted **FOR** each proposal.

**TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK. Example:  $\phi$**

|                               | FOR        | WITHHOLD   | FOR ALL       |
|-------------------------------|------------|------------|---------------|
| 1. Election of Board Members: | <b>ALL</b> | <b>ALL</b> | <b>EXCEPT</b> |
| Class I:                      |            |            |               |
| 01. Judith M. Stockdale       | ..         | ..         | ..            |
| 02. Carole E. Stone           |            |            |               |
| 03. Virginia L. Stringer      |            |            |               |

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark the box **FOR ALL EXCEPT** and write the nominee's number on the line provided below.

|  | FOR | AGAINST | ABSTAIN |
|--|-----|---------|---------|
| 2. To approve an Agreement and Plan of Reorganization pursuant to which Nuveen Municipal High Income Opportunity Fund 2 (the Target Fund) would (i) transfer substantially all of its assets to Nuveen Municipal High Income Opportunity Fund (the Acquiring Fund) in exchange solely for newly issued common shares and preferred shares of the Acquiring Fund, and the Acquiring Fund's assumption of substantially all of the liabilities of the Target Fund, (ii) distribute such shares of the Acquiring Fund to the common shareholders and preferred shareholders of the Target Fund (with cash being issued in lieu of fractional common shares), and (iii) liquidate, dissolve and terminate in accordance with applicable law. | ..  | ..      | ..      |

**WE URGE YOU TO SIGN, DATE AND MAIL THIS PROXY PROMPTLY**

NMZ\_24451\_031913

**STATEMENT OF ADDITIONAL INFORMATION**

**RELATING TO THE REORGANIZATION OF**

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND (NMZ)**

**AND**

**NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND 2 (NMD)**

**(EACH, A FUND AND TOGETHER, THE FUNDS )**

This Statement of Additional Information ( SAI ) is available to shareholders of the Nuveen Municipal High Income Opportunity Fund 2 ( Municipal High Income 2 or the Target Fund ) in connection with the proposed reorganization of the Target Fund into Nuveen Municipal High Income Opportunity Fund ( Municipal High Income or the Acquiring Fund ), pursuant to an Agreement and Plan of Reorganization (the Agreement ) that provides for: (i) the Acquiring Fund s acquisition of substantially all of the assets of the Target Fund in exchange solely for newly issued common shares and Variable Rate MuniFund Term Preferred Shares ( VMTP Shares ) of the Acquiring Fund and the Acquiring Fund s assumption of substantially all of the liabilities of the Target Fund; (ii) the distribution of such shares of the Acquiring Fund to the common shareholders and holders of VMTP Shares of the Target Fund (with cash being issued in lieu of fractional common shares); and (iii) the liquidation, dissolution and termination of the Target Fund in accordance with applicable law (the Reorganization ).

This SAI is not a prospectus and should be read in conjunction with the Joint Proxy Statement/Prospectus filed on Form N-14 with the Securities and Exchange Commission ( SEC ) dated April 24, 2013 relating to the proposed Reorganization of the Target Fund into the Acquiring Fund (the Joint Proxy Statement/Prospectus ). A copy of the Joint Proxy Statement/Prospectus and other information may be obtained without charge by calling (800) 257-8787 or from the Funds website (<http://www.nuveen.com>). The information contained in, or that can be accessed through, the Funds website is not part of the Joint Proxy Statement/Prospectus or this SAI. You may also obtain a copy of the Joint Proxy Statement/Prospectus on the website of the SEC (<http://www.sec.gov>). Capitalized terms used but not defined in this SAI have the meanings ascribed to them in the Joint Proxy Statement/Prospectus.

This SAI is dated April 24, 2013.

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### INVESTMENT OBJECTIVES AND POLICIES

The following supplements the information contained in the Joint Proxy Statement/Prospectus concerning the investment objectives and policies of the Funds. The investment policies described below, except as set forth under Investment Restrictions or otherwise noted, are not fundamental policies and may be changed by each Fund's Board of Trustees (the Board and each Trustee, a Board Member) without the approval of shareholders.

The Funds have similar investment objectives and policies. The Acquiring Fund's primary investment objective is to provide high current income exempt from regular federal income tax. The Acquiring Fund's secondary investment objective is to seek attractive total return consistent with its primary objective. Similarly, the Target Fund's primary investment objective is to provide attractive income exempt from regular federal income tax. The Target Fund's secondary investment objective is to seek additional return. Each Fund invests at least 80% of its Managed Assets (as defined below) in investments the income from which is exempt from regular federal income tax. Each Fund seeks to achieve its investment objectives by investing in municipal securities the investment adviser to each Fund, Nuveen Fund Advisors, LLC (Nuveen Fund Advisors or the Adviser), believes are underrated and undervalued.

Under normal circumstances, each Fund invests its assets, including assets attributable to preferred shares and the principal amount of any borrowings (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 each 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, and except for the temporary investments described below, each Fund expects to be fully invested (at least 95% of its Managed Assets) in such tax-exempt municipal securities. Up to 30% of each 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 AMT). For a discussion of how the AMT may affect shareholders, see Federal Income Tax Matters.

Each Fund invests 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 Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies (S&P), or Fitch Ratings (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 the Adviser.

Each 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 Acquiring Fund's Managed Assets and, with respect to the Target Fund, 10% of its Managed Assets, may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by the Adviser. This means that each 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 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 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 of each Fund's assets by the Adviser, market value fluctuations, issuance of additional shares and other events. If a municipal security satisfies the ratings requirements described above at the time of purchase, a Fund will not be required to dispose of the security upon a downgrade.

Each 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. In addition, each Fund may purchase municipal securities that are additionally secured by insurance, bank credit agreements or escrow accounts. The credit quality of companies that provide such credit enhancements will affect the value of those securities. Although the insurance feature reduces certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce a Fund's income. Each 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 Funds' common shares.

Each Fund may enter into certain derivative instruments in pursuit of its investment objectives, including to seek to enhance return, to hedge some of the risk of the Fund's investments in municipal securities or a substitute for a position in the underlying asset. 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. A Fund may not enter into a futures contract or related options or forward contracts if more than 30% of the Fund's net assets would be represented by futures contracts or more than 5% of the Fund's net assets would be committed to initial margin deposits and premiums on futures contracts or related options.

Each Fund may invest up to approximately 15% of its Managed Assets in inverse floating rate securities. Inverse floating rate securities represent a leveraged investment in the underlying municipal bond deposited. Inverse floating rate securities offer the opportunity for higher income than the underlying bond, but will subject the Fund to the risk of lower or even no income if short-term interest rates rise sufficiently. By investing in an inverse floating rate security rather than directly in the underlying bond, the Fund will experience a greater increase in its common share net asset value if the underlying municipal bond increases in value, but will also experience a correspondingly larger decline in its common share net asset value if the underlying bond declines in value.

Each Fund may borrow money for the repurchase of its shares or for temporary or emergency purposes, such as for the payment of dividends or the settlement of portfolio transactions. During temporary defensive periods and in order to keep the Fund's cash fully invested, each 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. Each Fund intends to invest in taxable short-term investments only in the event that 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 taxes.

There is no assurance that a Fund will achieve its investment objectives.

A general description of Moody's, S&P and Fitch's ratings of municipal securities is set forth in Appendix A hereto. The ratings of Moody's, S&P and Fitch represent their opinions as to the quality

of the municipal securities they rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. Consequently, municipal securities with the same maturity, coupon and rating may have different yields while obligations of the same maturity and coupon with different ratings may have the same yield.

### PORTFOLIO COMPOSITION

In addition to and supplementing the Joint Proxy Statement/Prospectus, each Fund's portfolio will be composed principally of the investments described below.

#### **Municipal Securities**

*General.* Each 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.

Each 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 Leases and Certificates of Participation.* Also included within the general category of municipal securities described in the Joint Proxy Statement/Prospectus are municipal leases, certificates of participation in such lease obligations or installment purchase contract obligations (hereinafter collectively called Municipal Lease Obligations) of municipal authorities or entities. Although a Municipal Lease Obligation does not constitute a general obligation of the municipality for which the municipality's taxing power is pledged, a Municipal Lease Obligation is ordinarily backed by the municipality's covenant to budget for, appropriate and make the payments due under the Municipal Lease Obligation. However, certain Municipal Lease Obligations contain non-appropriation clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In the case of a non-appropriation lease, a Fund's ability to recover under the lease in



the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. In order to reduce this risk, a Fund will only purchase Municipal Lease Obligations where the Sub-Adviser believes the issuer has a strong incentive to continue making appropriations until maturity.

*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. A Fund's distributions of its interest income from private activity bonds may subject certain investors to the AMT.

*Tender Option Bonds.* A tender option bond is a municipal security (generally held pursuant to a custodial arrangement) having a relatively long maturity and bearing interest at a fixed rate substantially higher than prevailing short-term, tax-exempt rates. The bond is typically issued with the agreement of a third party, such as a bank, broker-dealer or other financial institution, which grants the security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees equal to the difference between the bond's fixed coupon rate and the rate, as determined by a remarketing or similar agent at or near the commencement of such period, that would cause the securities, coupled with the tender option, to trade at par on the date of such determination. Thus, after payment of this fee, the security holder effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, an institution will not be obligated to accept tendered bonds in the event of certain defaults or a significant downgrade in the credit rating assigned to the issuer of the bond. Each Fund intends to invest in tender option bonds the interest on which will, in the opinion of bond counsel, counsel for the issuer of interests therein or counsel selected by the Sub-Adviser, be exempt from regular federal income tax. However, because there can be no assurance that the IRS will agree with such counsel's opinion in any particular case, there is a risk that a Fund will not be considered the owner of such tender option bonds and thus will not be entitled to treat such interest as exempt from such tax. Additionally, the federal income tax treatment of certain other aspects of these investments, including the proper tax treatment of tender option bonds and the associated fees in relation to various regulated investment company tax provisions, is unclear. Each Fund intends to

manage its portfolio in a manner designed to eliminate or minimize any adverse impact from the tax rules applicable to these investments.

*Special Taxing Districts.* Special taxing districts are organized to plan and finance infrastructure development 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.

The foregoing information constitutes only a brief summary of some of the general factors which may impact certain issuers of municipal bonds and does not purport to be a complete or exhaustive description of all adverse conditions to which the issuers of municipal bonds held by the Funds are subject. Additionally, many factors including national economic, social and environmental policies and conditions, which are not within the control of the issuers of the municipal bonds, could affect or could have an adverse impact on the financial condition of the issuers. The Funds are unable to predict whether or to what extent such factors or other factors may affect the issuers of the municipal bonds, the market value or marketability of the municipal bonds or the ability of the respective issuers of the municipal bonds acquired by a Fund to pay interest on or principal of the municipal bonds. This information has not been independently verified.

#### **Derivatives and Hedging Strategies**

The Funds may periodically engage in hedging transactions, and otherwise use various types of derivative instruments, described below, to reduce risk, to effectively gain particular market exposures, to seek to enhance returns, and to reduce transaction costs, among other reasons.

Hedging is a term used for various methods of seeking to preserve portfolio capital value by offsetting price changes in one investment through making another investment whose price should tend to move in the opposite direction.

A derivative is a financial contract whose value is based on (or derived from) a traditional security (such as a stock or a bond), an asset (such as a commodity like gold), or a market index (such as the Barclays Capital Municipal Bond Index). Some forms of derivatives may trade on exchanges, while non-standardized derivatives, which tend to be more specialized and complex, trade in over-the-counter or a one-on-one basis. It may be desirable and possible in various market environments to partially hedge the portfolio against fluctuations in market value due to market interest rate or credit quality fluctuations, or instead to gain a desired investment exposure, by entering into various types of derivative transactions, including financial futures and index futures as well as related put and call options on such instruments, structured notes, or interest rate swaps on taxable or tax-exempt securities or indexes (which may be forward-starting), credit default swaps, and options on interest rate swaps, among others.

These transactions present certain risks. In particular, the imperfect correlation between price movements in the futures contract and price movements in the securities being hedged creates the possibility that losses on the hedge by the Funds may be greater than gains in the value of the securities in the Funds' portfolios. In addition, futures and options markets may not be liquid in all circumstances. As a result, in volatile markets, the Funds may not be able to close out the transaction without incurring losses substantially greater than the initial deposit. Finally, the potential deposit requirements in futures contracts create an ongoing greater potential financial risk than do options transactions, where the exposure is limited to the cost of the initial premium. Losses due to hedging transactions will reduce yield. Net gains, if any, from hedging and other portfolio transactions will be distributed as taxable distributions to shareholders. Successful implementation of most hedging strategies will generate taxable income.

The Funds will invest in these instruments only in markets believed by the Adviser to be active and sufficiently liquid.

*Swap Transactions.* The Funds may enter into total return, interest rate and credit default swap agreements and interest rate caps, floors and collars. The Funds may also enter into options on the foregoing types of swap agreements ( swap options ).

Each Fund may enter into swap transactions for any purpose consistent with its investment objective, such as for the purpose of attempting to obtain or preserve a particular return or spread at a lower cost than obtaining a return or spread through purchases and/or sales of instruments in other markets, as a duration management technique, to reduce risk arising from the ownership of a particular instrument, or to gain exposure to certain sectors or markets in the most economical way possible.

Swap agreements are two party contracts entered into primarily by institutional investors for a specified period of time. In a standard swap transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on a particular predetermined asset, reference rate or index. The gross returns to be exchanged or swapped between the parties are generally calculated with respect to a notional amount, e.g., the return on or increase in value of a particular dollar amount invested at a particular interest rate or in a basket of securities representing a particular index. The notional amount of the swap agreement generally is only used as a basis upon which to calculate the obligations that the parties to the swap agreement have agreed to exchange. A Fund's current obligations under a net swap agreement will be accrued daily (offset against any amounts owed to the Fund) and any accrued but unpaid net amounts owed to a swap counterparty will be covered by assets determined to be liquid by the Sub-Adviser. See Segregation of Assets below.

Some, but not all, swaps may be cleared, in which case a central clearing counterparty stands between each buyer and seller and effectively guarantees performance of each contract, to the extent of its available resources for such purpose. Uncleared swaps have no such protection; each party bears the risk that its direct counterparty will default.

*Interest Rate Swaps, Caps, Collars and Floors.* Interest rate swaps are bilateral contracts in which each party agrees to make periodic payments to the other party based on different referenced interest rates (e.g., a fixed rate and a floating rate) applied to a specified notional amount. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate floor. The purchase of an interest rate cap entitles the purchaser, to the

extent that a specified index rises above a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate cap. Interest rate collars involve selling a cap and purchasing a floor or vice versa to protect a Fund against interest rate movements exceeding given minimum or maximum levels.

*Total Return Swaps.* In a total return swap, one party agrees to pay the other the total return of a defined underlying asset during a specified period, in return for periodic payments based on a fixed or variable interest rate or the total return from other underlying assets. A total return swap may be applied to any underlying asset but is most commonly used with equity indices, single stocks, bonds and defined baskets of loans and mortgages. A Fund might enter into a total return swap involving an underlying index or basket of securities to create exposure to a potentially widely-diversified range of securities in a single trade. An index total return swap can be used by the Sub-Adviser to assume risk, without the complications of buying the component securities from what may not always be the most liquid of markets.

In connection with a Fund's position in a swap contract, the Fund will segregate liquid assets or will otherwise cover its position in accordance with applicable SEC requirements.

*Credit Default Swaps.* A credit default swap is a bilateral contract that enables an investor to buy or sell protection against a defined-issuer credit event. A Fund may enter into credit default swap agreements either as a buyer or a seller. A Fund may buy protection to attempt to mitigate the risk of default or credit quality deterioration in an individual security or a segment of the fixed income securities market to which it has exposure, or to take a short position in individual bonds or market segments which it does not own. A Fund may sell protection in an attempt to gain exposure to the credit quality characteristics of particular bonds or market segments without investing directly in those bonds or market segments.

As the buyer of protection in a credit default swap, a Fund would pay a premium (by means of an upfront payment or a periodic stream of payments over the term of the agreement) in return for the right to deliver a referenced bond or group of bonds to the protection seller and receive the full notional or par value (or other agreed upon value) upon a default (or similar event) by the issuer(s) of the underlying referenced obligation(s). If no default occurs, the protection seller would keep the stream of payments and would have no further obligation to the Fund. Thus, the cost to the Fund would be the premium paid with respect to the agreement. If a credit event occurs, however, the Fund may elect to receive the full notional value of the swap in exchange for an equal face amount of deliverable obligations of the reference entity that may have little or no value. The Fund bears the risk that the protection seller may fail to satisfy its payment obligations.

If a Fund is a seller of protection in a credit default swap and no credit event occurs, the Fund would generally receive an up-front payment or a periodic stream of payments over the term of the swap. If a credit event occurs, however, generally the Fund would have to pay the buyer the full notional value of the swap in exchange for an equal face amount of deliverable obligations of the reference entity that may have little or no value. As the protection seller, the Fund effectively adds economic leverage to its portfolio because, in addition to being subject to investment exposure on its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. Thus, the Fund bears the same risk as it would by buying the reference obligations directly, plus the additional risks related to obtaining investment exposure through a derivative instrument discussed below under Risks Associated with Swap Transactions.

*Swap Options.* A swap option is a contract that gives a counterparty the right (but not the obligation), in return for payment of a premium, to enter into a new swap agreement or to shorten, extend, cancel, or otherwise modify an existing swap agreement at some designated future time on specified terms. A cash-settled option on a swap gives the purchaser the right, in return for the premium paid, to receive an amount of cash equal to the value of the underlying swap as of the exercise date. A Fund may write (sell) and purchase put and call swap options. Depending on the terms of the particular option agreement, a Fund generally would incur a greater degree of risk when it writes a swap option than when it purchases a swap option. When a Fund purchases a swap option, it risks losing only the amount of the premium it has paid should it decide to let the option expire unexercised. However, when a Fund writes a swap option, upon exercise of the option the Fund would become obligated according to the terms of the underlying agreement.

*Risks Associated with Swap Transactions.* The use of swap transactions is a highly specialized activity which involves strategies and risks different from those associated with ordinary portfolio security transactions. If the Sub-Adviser is incorrect in its forecasts of default risks, market spreads or other applicable factors or events, the investment performance of a Fund would diminish compared with what it would have been if these techniques were not used. As the protection seller in a credit default swap, a Fund effectively adds economic leverage to its portfolio because, in addition to being subject to investment exposure on its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. A Fund generally may only close out a swap, cap, floor, collar or other two-party contract with its particular counterparty, and generally may only transfer a position with the consent of that counterparty. In addition, the price at which a Fund may close out such a two party contract may not correlate with the price change in the underlying reference asset. If the counterparty defaults, the Fund will have contractual remedies, but there can be no assurance that the counterparty will be able to meet its contractual obligations or that the Fund will succeed in enforcing its rights. It also is possible that developments in the derivatives market, including changes in government regulation, could adversely affect a Fund's ability to terminate existing swap or other agreements or to realize amounts to be received under such agreements.

*Futures and Options on Futures.* A futures contract is an agreement between two parties to buy and sell a security, index or interest rate (each a financial instrument) for a set price on a future date. Certain futures contracts, such as futures contracts relating to individual securities, call for making or taking delivery of the underlying financial instrument. However, these contracts generally are closed out before delivery by entering into an offsetting purchase or sale of a matching futures contract (same exchange, underlying financial instrument, and delivery month). Other futures contracts, such as futures contracts on interest rates and indices, do not call for making or taking delivery of the underlying financial instrument, but rather are agreements pursuant to which two parties agree to take or make delivery of an amount of cash equal to the difference between the value of the financial instrument at the close of the last trading day of the contract and the price at which the contract was originally written. These contracts also may be settled by entering into an offsetting futures contract.

Unlike when a Fund purchases or sells a security, no price is paid or received by a Fund upon the purchase or sale of a futures contract. Initially, a Fund will be required to deposit with the futures broker, known as a futures commission merchant (FCM), an amount of cash or securities equal to a varying specified percentage of the contract amount. This amount is known as initial margin. The margin deposit is intended to ensure completion of the contract. Minimum initial margin requirements are established by the futures exchanges and may be revised. In addition, FCMs may establish margin

deposit requirements that are higher than the exchange minimums. Cash held in the margin account generally is not income producing. However, coupon-bearing securities, such as Treasury securities, held in margin accounts generally will earn income. Subsequent payments to and from the FCM, called variation margin, will be made on a daily basis as the price of the underlying financial instrument fluctuates, making the futures contract more or less valuable, a process known as marking the contract to market. Changes in variation margin are recorded by a Fund as unrealized gains or losses. At any time prior to expiration of the futures contract, a Fund may elect to close the position by taking an opposite position that will operate to terminate its position in the futures contract. A final determination of variation margin is then made, additional cash is required to be paid by or released to a Fund, and the Fund realizes a gain or loss. In the event of the bankruptcy or insolvency of an FCM that holds margin on behalf of a Fund, the Fund may be entitled to the return of margin owed to it only in proportion to the amount received by the FCM's other customers, potentially resulting in losses to the Fund. Futures transactions also involve brokerage costs and a Fund may have to segregate additional liquid assets in accordance with applicable SEC requirements. See *Segregation of Assets* below.

A futures option gives the purchaser of such option the right, in return for the premium paid, to assume a long position (call) or short position (put) in a futures contract at a specified exercise price at any time during the period of the option. Upon exercise of a call option, the purchaser acquires a long position in the futures contract and the writer is assigned the opposite short position. Upon the exercise of a put option, the opposite is true.

*Limitations on the Use of Futures, Futures Options and Swaps.* 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 a 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 each Fund intends to comply with amended Regulation 4.5's requirements such that the Adviser and/or the Sub-Adviser will not be required to register with respect to the Fund as a commodity pool operator with the CFTC. Each 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 a Fund may enter into futures transactions, engage in options transactions or engage in swap transactions.

The Sub-Adviser may use derivative instruments to seek to enhance return, to hedge some of the risk of a 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 the Sub-Adviser will determine to use them for a Fund or, if used, that the strategies will be successful.

### Segregation of Assets

As a closed-end investment company registered with the SEC, each Fund is subject to the federal securities laws, including the 1940 Act, the rules thereunder, and various interpretive provisions of the SEC and its staff. In accordance with these laws, rules and positions, each Fund must set aside (often referred to as asset segregation) liquid assets, or engage in other SEC or staff-approved measures, to cover open positions with respect to certain kinds of derivatives instruments. In the case of forward currency contracts that are not contractually required to cash settle, for example, a Fund must set aside liquid assets equal to such contracts' full notional value while the positions are open. With respect to forward currency contracts that are contractually required to cash settle, however, a Fund is permitted to set aside liquid assets in an amount equal to the Fund's daily marked-to-market net obligations (i.e., the Fund's daily net liability) under the contracts, if any, rather than such contracts' full notional value. Each Fund reserves the right to modify its asset segregation policies in the future to comply with any changes in the positions from time to time articulated by the SEC or its staff regarding asset segregation.

To the extent that a Fund uses its assets to cover its obligations as required by the 1940 Act, the rules thereunder, and applicable positions of the SEC and its staff, such assets may not be used for other operational purposes. The Adviser will monitor the Funds' use of derivatives and will take action as necessary for the purpose of complying with the asset segregation policy stated above. Such actions may include the sale of a Fund's portfolio investments.

### Short-Term Investments

*Short-Term Taxable Fixed Income Securities.* For temporary defensive purposes or to keep cash on hand fully invested, each Fund may invest up to 100% of its net assets in cash equivalents and short-term taxable fixed-income securities, although each 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. Short-term taxable fixed income investments are defined to include, without limitation, the following:

- (a) U.S. government securities, including bills, notes and bonds differing as to maturity and rates of interest that are either issued or guaranteed by the U.S. Treasury or by U.S. government agencies or instrumentalities. U.S. government agency securities include securities issued by (a) the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, and the Government National Mortgage Association, whose securities are supported by the full faith and credit of the United States; (b) the Federal Home Loan Banks, Federal Intermediate Credit Banks, and the Tennessee Valley Authority, whose securities are supported by the right of the agency to borrow from the U.S. Treasury; (c) the Federal National Mortgage Association, whose securities are supported by the discretionary authority of the U.S. government to purchase certain obligations of the agency or instrumentality; and (d) the Student Loan Marketing Association, whose securities are supported only by its credit. While the U.S. government provides financial support to such U.S. government-sponsored agencies or instrumentalities, no assurance can be given that it always will do so since it is not so obligated by law. The U.S. government, its agencies, and instrumentalities do not guarantee the market value of their securities. Consequently, the value of such securities may fluctuate.
- (b) Certificates of Deposit issued against funds deposited in a bank or a savings and loan association. Such certificates are for a definite period of time, earn a specified rate of return, and are

normally negotiable. The issuer of a certificate of deposit agrees to pay the amount deposited plus interest to the bearer of the certificate on the date specified thereon. Under current FDIC regulations, the maximum insurance payable as to any one certificate of deposit is \$100,000; therefore, certificates of deposit purchased by the Funds may not be fully insured.

(c) Repurchase agreements, which involve purchases of debt securities. At the time a Fund purchases securities pursuant to a repurchase agreement, it simultaneously agrees to resell and redeliver such securities to the seller, who also simultaneously agrees to buy back the securities at a fixed price and time. This assures a predetermined yield for a Fund during its holding period, since the resale price is always greater than the purchase price and reflects an agreed-upon market rate. Such actions afford an opportunity for the Funds to invest temporarily available cash. The Funds may enter into repurchase agreements only with respect to obligations of the U.S. government, its agencies or instrumentalities; certificates of deposit; or bankers' acceptances in which the Funds may invest. Repurchase agreements may be considered loans to the seller, collateralized by the underlying securities. The risk to the Funds is limited to the ability of the seller to pay the agreed-upon sum on the repurchase date; in the event of default, the repurchase agreement provides that the Funds are entitled to sell the underlying collateral. If the seller defaults under a repurchase agreement when the value of the underlying collateral is less than the repurchase price, a Fund could incur a loss of both principal and interest. The Sub-Adviser monitors the value of the collateral at the time the action is entered into and at all times during the term of the repurchase agreement. The Sub-Adviser does so in an effort to determine that the value of the collateral always equals or exceeds the agreed-upon repurchase price to be paid to the Funds. If the seller were to be subject to a federal bankruptcy proceeding, the ability of the Funds to liquidate the collateral could be delayed or impaired because of certain provisions of the bankruptcy laws.

(d) Commercial paper, which consists of short-term unsecured promissory notes, including variable rate master demand notes issued by corporations to finance their current operations. Master demand notes are direct lending arrangements between the Funds and a corporation. There is no secondary market for such notes. However, they are redeemable by the Funds at any time. The Sub-Adviser will consider the financial condition of the corporation (e.g., earning power, cash flow, and other liquidity measures) and will continuously monitor the corporation's ability to meet all of its financial obligations, because a Fund's liquidity might be impaired if the corporation were unable to pay principal and interest on demand. Investments in commercial paper will be limited to commercial paper rated in the highest categories by a major rating agency and which mature within one year of the date of purchase or carry a variable or floating rate of interest.

*Short-Term Tax-Exempt Municipal Securities.* Short-term tax-exempt municipal securities are securities that are exempt from regular federal income tax and mature within three years or less from the date of issuance. Short-term tax-exempt municipal income securities are defined to include, without limitation, the following:

1. Bond Anticipation Notes (BANs) are usually general obligations of state and local governmental issuers which are sold to obtain interim financing for projects that will eventually be funded through the sale of long-term debt obligations or bonds. The ability of an issuer to meet its obligations on its BANs is primarily dependent on the issuer's access to the long-term municipal bond market and the likelihood that the proceeds of such bond sales will be used to pay the principal and interest on the BANs.



2. Tax Anticipation Notes ( TANS ) are issued by state and local governments to finance the current operations of such governments. Repayment is generally to be derived from specific future tax revenues. TANS are usually general obligations of the issuer. A weakness in an issuer's capacity to raise taxes due to, among other things, a decline in its tax base or a rise in delinquencies, could adversely affect the issuer's ability to meet its obligations on outstanding TANS.
3. Revenue Anticipation Notes ( RANs ) are issued by governments or governmental bodies with the expectation that future revenues from a designated source will be used to repay the notes. In general, they also constitute general obligations of the issuer. A decline in the receipt of projected revenues, such as anticipated revenues from another level of government, could adversely affect an issuer's ability to meet its obligations on outstanding RANs. In addition, the possibility that the revenues would, when received, be used to meet other obligations could affect the ability of the issuer to pay the principal and interest on RANs.
4. Construction Loan Notes are issued to provide construction financing for specific projects. Frequently, these notes are redeemed with funds obtained from the Federal Housing Administration.
5. Bank Notes are notes issued by local government bodies and agencies, such as those described above, to commercial banks as evidence of borrowings. The purposes for which the notes are issued are varied but they are frequently issued to meet short-term working capital or capital project needs. These notes may have risks similar to the risks associated with TANS and RANs.
6. Tax-Exempt Commercial Paper ( Municipal Paper ) represents very short-term unsecured, negotiable promissory notes, issued by states, municipalities and their agencies. Payment of principal and interest on issues of municipal paper may be made from various sources to the extent the funds are available therefrom. Maturities of municipal paper generally will be shorter than the maturities of TANS, BANs or RANs. There is a limited secondary market for issues of Municipal Paper.

Certain municipal securities may carry variable or floating rates of interest whereby the rate of interest is not fixed but varies with changes in specified market rates or indices, such as a bank prime rate or a tax-exempt money market index.

While the various types of notes described above as a group represent the major portion of the short-term tax-exempt note market, other types of notes are available in the marketplace, and the Funds may invest in such other types of notes to the extent permitted under their investment objectives, policies and limitations. Such notes may be issued for different purposes and may be secured differently from those mentioned above.

#### **Inverse Floating Rate Securities and Floating Rate Securities**

*Inverse Floating Rate Securities.* Each Fund may invest up to approximately 15% 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, a 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, a 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. Each 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 a Fund, as the holder of the residual inverse floating rate securities.

Because increases in the interest rate on the short-term floaters reduce the residual interest paid on inverse floaters, and because fluctuations in the value of the municipal bond deposited in the special purpose trust affect the value of the inverse floater only, and not the value of the short-term floater issued by the trust, inverse floaters' value is generally more volatile than that of fixed rate bonds. The market price of inverse floating rate securities is generally more volatile than the underlying 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 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 among other things, the liquidity of the underlying securities deposited in a special purpose trust.

Each Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In the Sub-Adviser's discretion, a Fund may enter into a separate shortfall and forbearance agreement with the third-party sponsor of a special purpose trust. A Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require a 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 a Fund to a risk of loss that exceeds its investment in the inverse floating rate securities. A 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. Absent a

shortfall and forbearance agreement, a Fund would not be required to make such a reimbursement. If a Fund chooses not to enter into such an agreement, the special purpose trust could be liquidated and the Fund could incur a loss. See also Segregation of Assets in this SAI.

The Funds may invest in both inverse floating rate securities and floating rate securities (as discussed below) issued by the same special purpose trust.

Investments in inverse floating rate securities have the economic effect of leverage. The use of leverage creates special risks for common shareholders. See the Joint Proxy Statement/Prospectus under Risk Factors Inverse Floating Rate Securities Risk.

*Floating Rate Securities.* The Funds may also invest in floating rate securities, as described above, 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, a 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.

#### **When-Issued and Delayed Delivery Transactions**

Each 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 15-45 days of the trade date. On such transactions the payment obligation and the interest rate are fixed at the time the buyer enters into the commitment. Beginning on the date a Fund enters into a commitment to purchase securities on a when-issued or delayed delivery basis, the Fund is required under rules of the SEC to maintain in a separate account liquid assets, consisting of cash, cash equivalents or liquid securities having a market value, at all times, of at least equal to the amount of the commitment. Income generated by any such assets which provide taxable income for federal income tax purposes is includable in the taxable income of a Fund. A Fund may enter into contracts to purchase municipal securities on a forward basis (i.e., where settlement will occur more than 60 days from the date of the transaction) only to the extent that the Fund specifically collateralizes such obligations with a security that is expected to be called or mature within 60 days before or after the settlement date of the forward transaction. The commitment to purchase securities on a when-issued, delayed delivery or forward basis may involve an element of risk because no interest accrues on the bonds prior to settlement and at the time of delivery the market value may be less than cost.

#### **Other Investment Companies**

Each 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, a 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. Each 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 an offering of its common shares or borrowing, or during periods when there is a shortage of attractive, high-yielding municipal securities available in the market. A Fund may invest in investment companies that are advised by the Adviser, the Sub-Adviser or their respective affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC. As a stockholder in an investment company, a Fund will bear its ratable share of that investment company's expenses and would remain subject to payment of the Funds' management, advisory and administrative fees with respect to assets so invested. Common shareholders would therefore be subject to duplicative expenses to the extent a Fund invests in other investment companies.

The Adviser 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 Joint Proxy Statement/Prospectus, 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.

#### **Other Investment Policies and Techniques**

*Illiquid Securities.* Each Fund may invest in illiquid securities (i.e., securities that are not readily marketable), including, but not limited to, restricted securities (securities the disposition of which is restricted under the federal securities laws), securities that may be resold only pursuant to Rule 144A under the Securities Act that are deemed to be illiquid, and certain repurchase agreements.

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities Act. Where registration is required, a Fund may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, a Fund might obtain a less favorable price than that which prevailed when it decided to sell. To the extent that the Board of Trustees or its delegatee determines that the price of any illiquid security provided by the pricing service is inappropriate, such security will be priced at a fair value as determined in good faith by the Board of Trustees or its delegatee.

*Portfolio Trading and Turnover Rate.* Each Fund may engage in portfolio trading when considered appropriate, but short-term trading will not be used as the primary means of achieving the Fund's investment objectives. Although a Fund cannot accurately predict its annual portfolio turnover rate, it is generally not expected to exceed 25% under normal circumstances. However, there are no limits on a Fund's rate of portfolio turnover, and investments may be sold without regard to length of time held when, in the Adviser's opinion, investment considerations warrant such action. A higher portfolio turnover rate would result in correspondingly greater brokerage commissions and other transactional expenses that are borne by a Fund. Although these commissions and expenses are not reflected in the Funds' Total Annual Expenses in the Joint Proxy Statement/Prospectus, they will be

reflected in the Funds' total return. In addition, high portfolio turnover may result in the realization of net short-term capital gains by a Fund which, when distributed to shareholders, will be taxable as ordinary income. See "Federal Income Tax Matters."

*Repurchase Agreements.* As temporary investments, the Funds may invest in repurchase agreements. A repurchase agreement is a contractual agreement whereby the seller of securities (U.S. government securities or municipal securities) agrees to repurchase the same security at a specified price on a future date agreed upon by the parties. The agreed-upon repurchase price determines the yield during a Fund's holding period. Repurchase agreements are considered to be loans collateralized by the underlying security that is the subject of the repurchase contract. Income generated from transactions in repurchase agreements will be taxable. See "Federal Income Tax Matters" for information relating to the allocation of taxable income between common shares and VMTP Shares. A Fund will only enter into repurchase agreements with registered securities dealers or domestic banks that, in the opinion of the Adviser, present minimal credit risk. The risk to a Fund is limited to the ability of the issuer to pay the agreed-upon repurchase price on the delivery date; however, although the value of the underlying collateral at the time the transaction is entered into always equals or exceeds the agreed-upon repurchase price, if the value of the collateral declines there is a risk of loss of both principal and interest. In the event of default, the collateral may be sold but a Fund might incur a loss if the value of the collateral declines, and might incur disposition costs or experience delays in connection with liquidating the collateral. In addition, if bankruptcy proceedings are commenced with respect to the seller of the security, realization upon the collateral by a Fund may be delayed or limited. The Sub-Adviser will monitor the value of the collateral at the time the transaction is entered into and at all times subsequent during the term of the repurchase agreement in an effort to determine that such value always equals or exceeds the agreed-upon repurchase price. In the event the value of the collateral declines below the repurchase price, the Sub-Adviser will demand additional collateral from the issuer to increase the value of the collateral to at least that of the repurchase price, including interest.

*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. A 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, a 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, the Adviser 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, the Adviser 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.

### INVESTMENT RESTRICTIONS

In addition to each Fund's investment objectives, the following investment restrictions are fundamental policies for the Funds and may not be changed without the approval of the holders of a majority of the outstanding common shares and preferred shares of such Fund, voting together as a single class, and of the holders of a majority of the outstanding preferred shares, voting separately as a single class. For this purpose, a majority of the outstanding shares means the vote of (1) 67% or more of the voting securities present at a meeting, if the holders of more than 50% of the outstanding voting securities are present or represented by proxy; or (2) more than 50% of the outstanding voting securities, whichever is less.

Except as described below, each Fund may not:

#### Acquiring Fund

- 1) Under normal circumstances, invest less than 80% of the Fund's net assets (plus any borrowings for investment purposes) in investments the income from which is exempt from regular federal income tax;
- 2) Issue senior securities, as defined in the 1940 Act, other than preferred shares, except to the extent permitted under the 1940 Act and except as otherwise described in the Prospectus;
- 3) Borrow money, except as permitted by the 1940 Act and exemptive orders granted under the 1940 Act;
- 4) Act as underwriter of another issuer's securities, except to the extent that the Fund may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended (the Securities Act) in connection with the purchase and sale of portfolio securities;
- 5) Invest more than 25% of its total assets in securities of issuers in any one industry; provided, however, that such limitation shall not apply to municipal securities other than those municipal securities backed only by the assets and revenues of non-governmental users;
- 6) Purchase or sell real estate, but this shall not prevent the Fund from investing in municipal securities secured by real estate or interests therein or foreclosing upon and selling such real estate;

#### Target Fund

- Under normal circumstances, invest less than 80% of the Fund's Managed Assets in municipal securities paying interest that is exempt from regular federal income tax;
- Issue senior securities, as defined in the 1940 Act, other than preferred shares, except to the extent permitted under the 1940 Act and except as otherwise described in the Prospectus;
- Borrow money, except as permitted by the 1940 Act and exemptive orders granted under the 1940 Act;
- Act as underwriter of another issuer's securities, except to the extent that the Fund may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended (the Securities Act) in connection with the purchase and sale of portfolio securities;
- Invest more than 25% of its total assets in securities of issuers in any one industry; provided, however, that such limitation shall not apply to municipal securities other than those municipal securities backed only by the assets and revenues of non-governmental users;
- Purchase or sell real estate, but this shall not prevent the Fund from investing in municipal securities secured by real estate or interests therein or foreclosing upon and selling such real estate;

**Acquiring Fund**

7) Purchase or sell physical commodities unless acquired as a result of ownership of securities or other or other instruments (but this shall not prevent the Fund from purchasing or selling options, futures contracts or derivative instruments or from investing in securities or other instruments backed by physical commodities);

8) Make loans, except as permitted by the 1940 Act and exemptive orders granted under the 1940 Act;

9) With respect to 75% of the value of the Fund's total assets, purchase any securities (other than obligations issued or guaranteed by the United States government or by its agencies or instrumentalities), if as a result more than 5% of the Fund's total assets would then be invested in securities of a single issuer or if as a result the Fund would hold more than 10% of the outstanding voting securities of any single issuer; and

10) Invest in securities other than municipal securities and short-term securities, as described in the Prospectus, except the Fund may invest up to 5% of its net assets in tax-exempt or taxable fixed-income or equity securities for the purpose of acquiring control of an issuer whose municipal securities (a) the Fund already owns and (b) have deteriorated or are expected shortly to deteriorate significantly in credit quality, provided the Adviser determines such investment should enable the Fund to maximize better its existing investment in such issuer.

For the purpose of applying the limitation set forth in subparagraph (2) above, each Fund may not issue senior securities not permitted by the 1940 Act simply by describing such securities in the prospectus.

For the purpose of applying the limitation set forth in paragraph (3) above, under the 1940 Act, the Acquiring Fund generally is not permitted to issue commercial paper or notes or borrow unless, immediately after the borrowing or commercial paper or note issuance, the value of the Acquiring Fund's total assets less liabilities other than the principal amount represented by senior securities representing indebtedness is at least 300% of such principal amount.

For the purpose of applying the limitation set forth in subparagraph (5) above, such policy will apply to municipal securities of the Target Fund if the payment of principal and interest for such securities is derived solely from a specific project, and in that situation the Target Fund will consider such municipal securities to be in an industry associated with the project.

For the purpose of applying the limitation set forth in subparagraph (9) above, an issuer shall be deemed the sole issuer of a security when its assets and revenues are separate from other governmental

**Target Fund**

Purchase or sell physical commodities unless acquired as a result of ownership of securities or other or other instruments (but this shall not prevent the Fund from purchasing or selling options, futures contracts or derivative instruments or from investing in securities or other instruments backed by physical commodities);

Make loans, except as permitted by the 1940 Act and exemptive orders granted under the 1940 Act; and

With respect to 75% of the value of the Fund's total assets, purchase any securities (other than obligations issued or guaranteed by the United States government or by its agencies or instrumentalities), if as a result more than 5% of the Fund's total assets would then be invested in securities of a single issuer or if as a result the Fund would hold more than 10% of the outstanding voting securities of any single issuer.

entities and its securities are backed only by its assets and revenues. Similarly, in the case of a non-governmental issuer, such as an industrial corporation or a privately owned or operated hospital, if the security is backed only by the assets and revenues of the non-governmental issuer, then such non-governmental issuer would be deemed to be the sole issuer. Where a security is also backed by the enforceable obligation of a superior or unrelated governmental or other entity (other than a bond insurer), it shall also be included in the computation of securities owned that are issued by such governmental or other entity. Where a security is guaranteed by a governmental entity or some other facility, such as a bank guarantee or letter of credit, such a guarantee or letter of credit would be considered a separate security and would be treated as an issue of such government, other entity or bank. When a municipal security is insured by bond insurance, it shall not be considered a security that is issued or guaranteed by the insurer; instead, the issuer of such municipal security will be determined in accordance with the principles set forth above. The foregoing restrictions do not limit the percentage of the Fund's assets that may be invested in municipal securities insured by any given insurer.

Each Fund is diversified for purposes of the 1940 Act. Consequently, as to 75% of each Fund's total assets, a Fund may not (i) purchase the securities of any one issuer (other than cash, securities of other investment companies and securities issued by the U.S. Government or its agencies or instrumentalities) if immediately after such purchase, more than 5% of the value of the Fund's total assets would be invested in securities of such issuer or (ii) purchase more than 10% of the outstanding voting securities of such issuer.

Subject to certain exemptions under the 1940 Act, each Fund may invest up to 10% of its total assets in the aggregate in shares of other investment companies and up to 5% of its total assets in any one investment company, provided the investment does not represent more than 3% of the voting stock of the acquired investment company at the time such shares are purchased. As a stockholder in any investment company, each Fund will bear its ratable share of that investment company's expenses and will remain subject to payment of each Fund's management, advisory and administrative fees with respect to assets so invested. Holders of common shares of each Fund would therefore be subject to duplicative expenses to the extent a Fund invests in other investment companies. In addition, the securities of other investment companies may be leveraged and therefore will be subject to the same leverage risks described herein.

In addition to the foregoing fundamental investment policies, each Fund is also subject to the following non-fundamental restrictions and policies, which may be changed by the Board. Each Fund may not:

- (1) Sell securities short, unless the Fund owns or has the right to obtain securities equivalent in kind and amount to the securities sold at no added cost, and provided that transactions in options, futures contracts, options on futures contracts, or other derivative instruments are not deemed to constitute selling securities short.
- (2) Purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act or any exemptive relief obtained thereunder.
- (3) Enter into futures contracts or related options or forward contracts, if more than 30% of the Fund's net assets would be represented by futures contracts or more than 5% of the Fund's net assets would be committed to initial margin deposits and premiums on futures contracts and related options.



- (4) Purchase securities when borrowings exceed 5% of its total assets if and so long as preferred shares are outstanding.
- (5) Purchase securities of companies for the purpose of exercising control, except as otherwise permitted in the Fund's prospectus and statement of additional information.

The restrictions and other limitations set forth above will apply only at the time of purchase of securities and will not be considered violated unless an excess or deficiency occurs or exists immediately after and as a result of an acquisition of securities.

Each Fund may be subject to certain restrictions imposed by either guidelines of one or more NRSROs that may issue ratings for preferred shares, or, if issued, commercial paper or notes, or, if a Fund borrows from a lender, by the lender. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on a Fund by the 1940 Act. If these restrictions were to apply, it is not anticipated that these covenants or guidelines would impede the Adviser from managing a Fund's portfolio in accordance with the Fund's investment objectives and policies. A copy of the current Rating Agency Guidelines will be provided to any holder of preferred shares promptly upon request therefor made by such holder to the Fund by writing the Fund at 333 West Wacker Drive, Chicago, Illinois 60606.

### Portfolio Turnover

Each Fund may buy and sell municipal securities to accomplish its investment objective(s) in relation to actual and anticipated changes in interest rates. Each Fund also may sell one municipal bond and buy another of comparable quality at about the same time to take advantage of what the Adviser believes to be a temporary price disparity between the two bonds that may result from imbalanced supply and demand. Each Fund also may engage in a limited amount of short-term trading, consistent with its investment objectives. Each Fund may sell securities in anticipation of a market decline (a rise in interest rates) or buy securities in anticipation of a market rise (a decline in interest rates) and later sell them, but a Fund will not engage in trading solely to recognize a gain. Each Fund will attempt to achieve its investment objectives by prudently selecting municipal securities with a view to holding them for investment. Although a Fund cannot accurately predict its annual portfolio turnover rate, each Fund expects, though it cannot guarantee, that its annual portfolio turnover rate generally will not exceed 25% under normal circumstances.

For the fiscal years ended October 31, 2011 and October 31, 2012, the portfolio turnover rates of the Funds were as follows:

| Fund           | 2012 | 2011 |
|----------------|------|------|
| Acquiring Fund | 12%  | 32%  |
| Target Fund    | 8%   | 17%  |

There are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by each Fund. In addition, high portfolio turnover may result in the realization of net short-term capital gains by a Fund which, when distributed to shareholders, will be taxable as ordinary income for federal income tax purposes.

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## MANAGEMENT OF THE FUNDS

### Board Members and Officers

The management of the Funds, including general supervision of the duties performed for each Fund under its investment management agreement with Nuveen Fund Advisors (the management agreement), is the responsibility of the Funds' Board. (The same Board and officers oversee each Fund.) The number of Board Members is ten, one of whom is an interested person (as the term interested person is defined in the 1940 Act) and nine of whom are not interested persons (referred to herein as independent Board Members). None of the independent Board Members has ever been a trustee, director or employee of, or consultant to, Nuveen Investments, Inc. (Nuveen Investments), Nuveen Fund Advisors, Nuveen Asset Management or their affiliates.

With respect to each Fund, the Board is divided into three classes, Class I, Class II and Class III, with the Class I Board Members serving until the 2013 annual meeting, the Class II Board Members serving until the 2014 annual meeting and the Class III Board Members serving until the 2015 annual meeting, in each case until their respective successors are elected and qualified. Currently, Judith M. Stockdale, Carole E. Stone and Virginia L. Stringer are slated in Class I, John P. Amboian, David J. Kundert and Terence J. Toth are slated in Class II and Robert P. Bremner and Jack B. Evans are slated in Class III. In addition, two Board Members are to be elected by holders of preferred shares annually. Board Members Hunter and Schneider, who are the nominees for election by the preferred shareholders, were last elected to each Fund's Board at the annual meeting of shareholders held on July 27, 2010, and July 31, 2012, respectively, as Class I and Class III Board Members, respectively. Prior to December 21, 2012, each Fund had outstanding common shares only and thus, there was no separate slate of nominees for election by preferred shareholders. At a meeting of each Fund's Board held on November 12-14, 2012, in connection with each Fund's anticipated issuance of preferred shares on December 21, 2012 and pursuant to each Fund's By-Laws, each Fund's Board appointed Board Members Hunter and Schneider as the Board Members to be elected by preferred shareholders voting separately, for an initial term expiring at the next succeeding annual meeting of shareholders (i.e., the May 16, 2013 Annual Meeting). Concurrently with their appointment as Board Members to be elected by preferred shareholders voting separately, the prior designation of Board Members Hunter and Schneider as Class I and Class III Board Members, respectively, was relinquished.

The officers of the Funds serve annual terms and are elected on an annual basis. The names, business addresses and birthdates of the Board Members and officers of the Funds, their principal occupations and other affiliations during the past five years, the number of portfolios each oversees and other directorships they hold are set forth below. As of April 15, 2013, Board Members of the Funds are directors or trustees, as the case may be, of 101 Nuveen-sponsored open-end funds (the Nuveen Mutual Funds) and 105 Nuveen-sponsored closed-end funds (collectively with the Nuveen Mutual Funds, the Nuveen Funds).

| Name, Address and Birth Date  | Position(s) Held with Fund             | Term of Office and Length of Time Served <sup>(1)</sup>   | Principal Occupation(s) During Past Five Years   | Number of Portfolios in Fund Complex Overseen by Board Member | Other Directorships Held by Board Member During the Past Five Years                                   |
|---|--|---|--|---|---|
| <b>Board Members who are not interested persons of the Funds</b>                                |  |   |  |   |   |
| Robert P. Bremner<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606 | Chairman of the Board and Board Member | Term: Class III Board Member until 2015   | Private Investor and Management Consultant; Treasurer and Director, Humanities Council, Washington, D.C.; Board Member, Independent Directors Council affiliated with the Investment Company Institute.  | 206   | None  |
| (8/22/40)   |  | Length of Service:<br><br>Since 1996, Chairman of the Board since 2008; Lead Independent Director (2005-2008) |  |   |   |
| Jack B. Evans<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606     | Board Member                           | Term: Class III Board Member until 2015   | President, The Hall-Perrine Foundation, a private philanthropic corporation (since 1996). Member, Board of Regents for the State of Iowa University System; Director, Source Media Group; Life Trustee of Coe College and the Iowa College Foundation; formerly, Director, Federal Reserve Bank of Chicago; formerly, President and Chief Operating Officer, SCI Financial Group, Inc. (a regional financial services firm). | 206   | Director and Chairman, United Fire Group, a publicly held company; formerly, Director, Alliant Energy |
| (10/22/48)  |  | Length of Service:<br><br>Since 1999  |  |   |   |

| Name, Address and Birth Date  | Position(s) Held with Fund | Term of Office and Length of Time Served <sup>(1)</sup>                                   | Principal Occupation(s) During Past Five Years  | Number of Portfolios in Fund Complex Overseen by Board Member | Other Directorships Held by Board Member During the Past Five Years |
|---|----------------------------|---|---|---|---|
| William C. Hunter<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(3/6/48) | Board Member               | Term: Class I Board Member until 2013 <sup>(2)</sup><br><br>Length of Service: Since 2004 | Dean Emeritus (since June 30, 2012), formerly Dean (2006-2012), Tippie College of Business, University of Iowa; Director (since 2005) and President (since July 2012), Beta Gamma Sigma, Inc., The International Business Honor Society; Director, Wellmark, Inc. (since 2009); formerly, Director (1997-2007), Credit Research Center at Georgetown University; formerly, Dean and Distinguished Professor of Finance, School of Business at the University of Connecticut (2003-2006); previously, Senior Vice President and Director of Research at the Federal Reserve Bank of Chicago (1995-2003). | 206   | Director (since 2004) of Xerox Corporation                          |

| Name, Address and Birth Date   | Position(s) Held with Fund | Term of Office and Length of Time Served <sup>(1)</sup>                     | Principal Occupation(s) During Past Five Years   | Number of Portfolios in Fund Complex Overseen by Board Member | Other Directorships Held by Board Member During the Past Five Years |
|--|----------------------------|---|--|---|---|
| David J. Kundert<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(10/28/42) | Board Member               | Term: Class II Board Member until 2014<br><br>Length of Service: Since 2005 | Director, Northwestern Mutual Wealth Management Company; retired (since 2004) as Chairman, JPMorgan Fleming Asset Management, President and CEO, Banc One Investment Advisors Corporation, and President, One Group Mutual Funds; prior thereto, Executive Vice President, Bank One Corporation and Chairman and CEO, Banc One Investment Management Group; Regent Emeritus, Member of Investment Committee, Luther College; Member of the Wisconsin Bar Association; Member of Board of Directors, Friends of Boerner Botanical Gardens; Member of Board of Directors and Chair of Investment Committee, Greater Milwaukee Foundation; Member of Board Directors (Milwaukee), College Possible. | 206   | None  |

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| Name, Address and Birth Date   | Position(s) Held with Fund | Term of Office and Length of Time Served <sup>(1)</sup>                                     | Principal Occupation(s) During Past Five Years  | Number of Portfolios in Fund Complex Overseen by Board Member | Other Directorships Held by Board Member During the Past Five Years |
|--|----------------------------|---|---|---|---|
| William J. Schneider <sup>(3)</sup><br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(9/24/44) | Board Member               | Term: Class III Board Member until 2015 <sup>(2)</sup><br><br>Length of Service: Since 1996 | Chairman of Miller-Valentine Partners Ltd., a real estate investment company; Member, Mid-America Health System Board; Member, University of Dayton Business School Advisory Council; Board Member of Tech Town, Inc., a not-for-profit community development company; Board Member of WDPR Public Radio; formerly, Senior Partner and Chief Operating Officer (retired, 2004) of Miller-Valentine Group; formerly, Member, Dayton Philharmonic Orchestra Association; formerly, Director, Dayton Development Coalition; formerly, Member, Business Advisory Council, Cleveland Federal Reserve Bank. | 206   | None  |
| Judith M. Stockdale<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(12/29/47)                | Board Member               | Term: Class I Board Member until 2013<br><br>Length of Service: Since 1997                  | Formerly, Executive Director, Gaylord and Dorothy Donnelley Foundation (1994-2012); prior thereto, Executive Director, Great Lakes Protection Fund (1990-1994).   | 206   | None  |
| Carole E. Stone<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(6/28/47)                     | Board Member               | Term: Class I Board Member until 2013<br><br>Length of Service: Since 2007                  | Director, C2 Options Exchange, Incorporated (since 2009); formerly, Commissioner, New York State Commission on Public Authority Reform (2005-2010); formerly, Chair, New York Racing Association Oversight Board (2005-2007).   | 206   | Director, Chicago Board Options Exchange (since 2006).              |

| Name, Address and Birth Date  | Position(s) Held with Fund | Term of Office and Length of Time Served <sup>(1)</sup>                    | Principal Occupation(s) During Past Five Years   | Number of Portfolios in Fund Complex Overseen by Board Member | Other Directorships Held by Board Member During the Past Five Years                              |
|---|----------------------------|--|--|---|--|
| Virginia L. Stringer<br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(8/16/44) | Board Member               | Term: Class I Board Member until 2013<br><br>Length of Service: Since 2011 | Board Member, Mutual Fund Directors Forum; former Member, Governing Board, Investment Company Institute's Independent Directors Council; former owner and president, Strategic Management Resources, Inc., a management consulting firm; previously, held several executive positions in general management, marketing and human resources at IBM and The Pillsbury Company. | 206   | Previously, Independent Director (1987-2010) and Chair (1997-2010), First American Fund Complex. |

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| Name, Address and Birth Date  | Position(s) Held with Fund | Term of Office and Length of Time Served <sup>(1)</sup>                           | Principal Occupation(s) During Past Five Years  | Number of Portfolios in Fund Complex Overseen by Board Member | Other Directorships Held by Board Member During the Past Five Years |
|---|----------------------------|---|---|---|---|
| Terence J. Toth <sup>(4)</sup><br>c/o Nuveen Investments, Inc.<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(9/29/59) | Board Member               | Term:<br>Class II Board Member until 2014<br><br>Length of Service:<br>Since 2008 | Managing Partner, Promus Capital (since 2008); Director, Fulcrum IT Service LLC (since 2010), Quality Control Corporation (since 2012) and LogicMark LLC (since 2012); formerly, Director, Legal & General Investment Management America, Inc. (2008-2013); formerly, CEO and President, Northern Trust Global Investments (2004-2007); Executive Vice President, Quantitative Management & Securities Lending (2000-2004); prior thereto, various positions with Northern Trust Company (since 1994); Member, Chicago Fellowship Board (since 2005), Catalyst Schools of Chicago Board (since 2008) and Mather Foundation Board (since 2012), and a member of its investment committee; formerly, Member, Northern Trust Mutual Funds Board (2005-2007), Northern Trust Global Investments Board (2004-2007), Northern Trust Japan Board (2004-2007), Northern Trust Securities Inc. Board (2003-2007) and Northern Trust Hong Kong Board (1997-2004). | 206   | None  |



| Name, Address and Birth Date   | Position(s) Held with Fund | Term of Office and Length of Time Served <sup>(1)</sup>                                      | Principal Occupation(s) During Past Five Years   | Number of Portfolios in Fund Complex Overseen by Board Member | Other Directorships Held by Board Member During the Past Five Years |
|--|----------------------------|--|--|---|---|
| <p>John P. Amboian<sup>(5)</sup><br/>333 West Wacker Drive<br/>Chicago, IL 60606<br/>(6/14/61)</p> | <p>Board Member</p>        | <p>Term:<br/>Class II Board Member until 2014<br/><br/>Length of Service:<br/>Since 2008</p> | <p>Chief Executive Officer and Chairman (since 2007) and Director (since 1999) of Nuveen Investments, Inc.; formerly, President (1999-2007), Chief Executive Officer (since 2007) of Nuveen Investments Advisors Inc.; Director (since 1998) formerly, Chief Executive Officer (2007-2010) of Nuveen Fund Advisors, LLC.</p> | <p>206</p>  | <p>None</p>   |

- (1) Length of Time Served indicates the year in which the individual became a Board Member of a fund in the Nuveen Fund complex.
- (2) Messrs. William C. Hunter and William J. Schneider were last elected to the Board by shareholders as Class I and Class III Board Members, respectively. However, Messrs. Hunter and Schneider have been designated by the Board for election at the next annual meeting of shareholders by holders of preferred shares for a term of one year. Prior to December 21, 2012, each Fund had outstanding common shares only and thus, there was no separate slate of nominees for election by holders of preferred shares.
- (3) Mr. Schneider is one of several owners and managing members in two limited liability companies and a general partner and one member of the governing body of a general partnership, each engaged in real estate ownership activities. In connection with their ordinary course of investment activities, court appointed receivers have been named for certain individual properties owned by such entities. The individual properties for which a receiver has been appointed represent an immaterial portion of the portfolio assets owned by these entities.
- (4) Mr. Toth serves as a director on the Board of Directors of the Mather Foundation (the Foundation ) and is a member of its investment committee. The Foundation is the parent of the Mather LifeWays organization, a non-profit charitable organization. Prior to Mr. Toth joining the Board of the Foundation, the Foundation selected Gresham Investment Management ( Gresham ), an affiliate of Nuveen Fund Advisors, to manage a portion of the Foundation s investment portfolio, and pursuant to this selection, the Foundation has invested that portion of its investment portfolio in a private commodity pool managed by Gresham.
- (5) Interested person as defined in the 1940 Act, by reason of his positions with Nuveen Investments, Inc. and certain of its subsidiaries. The following table sets forth information with respect to each officer of the Funds. Officers receive no compensation from the Funds. The officers are elected by the Board on an annual basis to serve until successors are elected and qualified. Unless otherwise noted, the following information is as of April 15, 2013.

| Name, Address and Birth Date   | Position(s) Held with Fund   | Term of Office and Length of Time Served <sup>(1)</sup> | Principal Occupation(s) During Past Five Years   | Number of Portfolios in Fund Complex Served by Officer |
|--|------------------------------|---|--|--|
| Gifford R. Zimmerman<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(9/9/56) | Chief Administrative Officer | Term/Annual Length of Service:<br>Since 1988            | Managing Director (since 2002), Assistant Secretary and Associate General Counsel of Nuveen Securities, LLC; Managing Director (since 2002), Assistant Secretary (since 1997) and Co-General Counsel (since 2011) of Nuveen Fund Advisors, LLC; Managing Director (since 2004) and Assistant Secretary (since 1994) of Nuveen Investments, Inc.; Managing Director, Assistant Secretary and Associate General Counsel of Nuveen Asset Management, LLC (since 2011); Vice President and Assistant Secretary of NWQ Investment Management Company, LLC and Nuveen Investments Advisers Inc. (since 2002); Managing Director, Associate General Counsel and Assistant Secretary of Symphony Asset Management LLC (since 2003); Vice President and Assistant Secretary of Santa Barbara Asset Management, LLC (since 2006) and of Winslow Capital Management, LLC (since 2010); Chief Administrative Officer and Chief Compliance Officer (since 2010) of Nuveen Commodities Asset Management, LLC; Chartered Financial Analyst. | 206  |
| William Adams IV<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(6/9/55)     | Vice President               | Term/Annual Length of Service:<br>Since 2007            | Senior Executive Vice President, Global Structured Products, formerly, Executive Vice President (1999-2010) of Nuveen Securities, LLC; Co-President of Nuveen Fund Advisors, LLC (since 2011); President (since 2011), formerly, Managing Director (2010-2011) of Nuveen Commodities Asset Management, LLC.  | 105  |

| Name, Address and Birth Date   | Position(s) Held with Fund    | Term of Office and Length of Time Served <sup>(1)</sup> | Principal Occupation(s) During Past Five Years  | Number of Portfolios in Fund Complex Served by Officer |
|--|-------------------------------|---|---|--|
| Cedric H. Antosiewicz<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(1/11/62) | Vice President                | Term/Annual Length of Service: Since 2007               | Managing Director (since 2004) of Nuveen Securities LLC.  | 105  |
| Margo L. Cook<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(4/11/64)         | Vice President                | Term/Annual Length of Service: Since 2009               | Executive Vice President (since 2008) of Nuveen Investments, Inc. and of Nuveen Fund Advisors, LLC (since 2011); Managing Director Investment Services of Nuveen Commodities Asset Management, LLC (since 2011); previously, Head of Institutional Asset Management (2007-2008) of Bear Stearns Asset Management; Head of Institutional Asset Management (1986-2007) of Bank of NY Mellon; Chartered Financial Analyst. | 206  |
| Lorna C. Ferguson<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(10/24/45)    | Vice President                | Term/Annual Length of Service: Since 1998               | Managing Director (since 2004) of Nuveen Securities, LLC; Managing Director (since 2005) of Nuveen Fund Advisors, LLC.  | 206  |
| Stephen D. Foy<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(5/31/54)        | Vice President and Controller | Term/Annual Length of Service: Since 1993               | Senior Vice President (since 2010); formerly, Vice President (1993-2010) and Funds Controller (since 1998) of Nuveen Securities, LLC; Vice President (since 2005) of Nuveen Fund Advisors, LLC; Chief Financial Officer (since 2010) of Nuveen Commodities Asset Management, LLC; Certified Public Accountant.  | 206  |

| Name, Address and Birth Date   | Position(s) Held with Fund                  | Term of Office and Length of Time Served <sup>(1)</sup> | Principal Occupation(s) During Past Five Years   | Number of Portfolios in Fund Complex Served by Officer |
|--|---|---|--|--|
| Scott S. Grace<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(8/20/70)  | Vice President and Treasurer                | Term/Annual Length of Service: Since 2009               | Managing Director, Corporate Finance & Development, Treasurer (since 2009) of Nuveen Securities, LLC; Managing Director and Treasurer of Nuveen Investments Advisers, Inc., Nuveen Investments Holdings, Inc., Nuveen Fund Advisors, LLC and Nuveen Asset Management, LLC (since 2011); Vice President and Treasurer of NWQ Investment Management Company, LLC, Tradewinds Global Investors, LLC, Symphony Asset Management LLC and Winslow Capital Management, LLC; Vice President of Santa Barbara Asset Management, LLC; formerly, Treasurer (2006-2009), Senior Vice President (2008-2009), previously, Vice President (2006-2008) of Janus Capital Group, Inc.; formerly, Senior Associate in Morgan Stanley's Global Financial Services Group (2000-2003); Chartered Accountant Designation. | 206  |
| Walter M. Kelly<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(2/24/70) | Chief Compliance Officer and Vice President | Term/Annual Length of Service: Since 2003               | Senior Vice President (since 2008) of Nuveen Investments Holdings, Inc.; Senior Vice President (since 2008 and Assistant Secretary (since 2003), of Nuveen Fund Advisors, LLC; formerly, Senior Vice President, of Nuveen Securities, LLC (2008-2011).   | 206  |
| Tina M. Lazar<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(8/27/61)   | Vice President                              | Term/Annual Length of Service: Since 2002               | Senior Vice President (since 2010), formerly, Vice President (2005-2010) of Nuveen Fund Advisors, LLC.   | 206  |

| Name, Address and Birth Date  | Position(s) Held with Fund             | Term of Office and Length of Time Served <sup>(1)</sup> | Principal Occupation(s) During Past Five Years   | Number of Portfolios in Fund Complex Served by Officer |
|---|--|---|--|--|
| Kevin J. McCarthy<br>333 West Wacker Drive<br>Chicago, IL 60606<br>(3/26/66)        | Vice President and Secretary           | Term/Annual Length of Service: Since 2007               | Managing Director and Assistant Secretary (since 2008), formerly, Vice President (2007-2008) of Nuveen Securities, LLC; Managing Director (since 2008), Assistant Secretary (since 2007) and Co-General Counsel (since 2011) of Nuveen Fund Advisors, LLC; Managing Director, Assistant Secretary and Associate General Counsel (since 2011) of Nuveen Asset Management, LLC; Vice President and Assistant Secretary of Nuveen Investment Advisers Inc., NWQ Investment Management Company, LLC, NWQ Holdings, LLC, Symphony Asset Management LLC, Santa Barbara Asset Management, LLC and of Winslow Capital Management, LLC (since 2010); Vice President and Secretary (since 2010) of Nuveen Commodities Asset Management, LLC; prior thereto, Partner, Bell, Boyd & Lloyd LLP (1997-2007). | 206  |
| Kathleen L. Prudhomme<br>901 Marquette Avenue<br>Minneapolis, MN 55402<br>(3/30/53) | Vice President and Assistant Secretary | Term/Annual Length of Service: Since 2011               | Managing Director and Assistant Secretary of Nuveen Securities, LLC (since 2011); Managing Director, Assistant Secretary and Co-General Counsel (since 2011) of Nuveen Fund Advisors, LLC; Managing Director, Assistant Secretary and Associate General Counsel (since 2011) of Nuveen Asset Management, LLC; formerly, Deputy General Counsel, FAF Advisors, Inc. (2004-2010).  | 206  |

(1) Length of Time Served indicates the year the individual became an officer of a fund in the Nuveen fund complex.

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### **BOARD LEADERSHIP STRUCTURE AND RISK OVERSIGHT**

The Board of each Fund oversees the operations and management of the Fund, including the duties performed for the Funds by the Adviser. The Board has adopted a unitary board structure. A unitary board consists of one group of directors who serve on the board of every fund in the complex. In adopting a unitary board structure, the Board Members seek to provide effective governance through establishing a board, the overall composition of which will, as a body, possess the appropriate skills, independence and experience to oversee the Funds' business. With this overall framework in mind, when the Board, through its Nominating and Governance Committee discussed below, seeks nominees for the Board, the Board Members consider not only the candidate's particular background, skills and experience, among other things, but also whether such background, skills and experience enhance the Board's diversity and at the same time complement the Board given its current composition and the mix of skills and experiences of the incumbent Board Members. The Nominating and Governance Committee believes that the Board generally benefits from diversity of background, experience and views among its members, and considers this a factor in evaluating the composition of the Board, but has not adopted any specific policy on diversity or any particular definition of diversity.

The Board believes the unitary board structure enhances good and effective governance, particularly given the nature of the structure of the investment company complex. Funds in the same complex generally are served by the same service providers and personnel and are governed by the same regulatory scheme which raises common issues that must be addressed by the Board Members across the fund complex (such as compliance, valuation, liquidity, brokerage, trade allocation or risk management). The Board believes it is more efficient to have a single board review and oversee common policies and procedures which increases the Board's knowledge and expertise with respect to the many aspects of fund operations that are complex-wide in nature. The unitary structure also enhances the Board's influence and oversight over the Adviser and other service providers.

In an effort to enhance the independence of the Board, the Board also has a Chairman that is an Independent Board Member. The Board recognizes that a chairman can perform an important role in setting the agenda for the Board, establishing the boardroom culture, establishing a point person on behalf of the Board for Fund management, and reinforcing the Board's focus on the long-term interests of shareholders. The Board recognizes that a chairman may be able to better perform these functions without any conflicts of interests arising from a position with Fund management. Accordingly, the Board Members have elected Robert P. Bremner as the independent Chairman of the Board through June 30, 2013 and William J. Schneider to serve as the independent Chairman of the Board effective July 1, 2013. Specific responsibilities of the Chairman include: (i) presiding at all meetings of the Board and of the shareholders; (ii) seeing that all orders and resolutions of the Board Members are carried into effect; and (iii) maintaining records of and, whenever necessary, certifying all proceedings of the Board and the shareholders.

Although the Board has direct responsibility over various matters (such as advisory contracts, underwriting contracts and Fund performance), the Board also exercises certain of its oversight responsibilities through several committees that it has established and which report back to the full Board. The Board believes that a committee structure is an effective means to permit Board Members to focus on particular operations or issues affecting the Funds, including risk oversight. More specifically, with respect to risk oversight, the Board has delegated matters relating to valuation and compliance to certain committees (as summarized below) as well as certain aspects of investment risk. In addition, the Board believes that the periodic rotation of Board Members among the different committees allows the Board Members to gain additional and different perspectives on a Fund's

operations. The Board has established six standing committees: the Executive Committee, the Dividend Committee, the Audit Committee, the Compliance, Risk Management and Regulatory Oversight Committee and the Nominating and Governance Committee and the Closed-End Funds Committee. The Board may also from time to time create ad hoc committees to focus on particular issues as the need arises. The membership and functions of the standing committees are summarized below.

The Executive Committee, which meets between regular meetings of the Board, is authorized to exercise all of the powers of the Board. The members of the Executive Committee are Robert P. Bremner, Chair, Judith M. Stockdale and John P. Amboian. During the fiscal year ended October 31, 2012, the Executive Committee did not meet.

The Dividend Committee is authorized to declare distributions on each Fund's shares including, but not limited to, regular and special dividends, capital gains and ordinary income distributions. The members of the Dividend Committee are Jack B. Evans, Chair, Judith M. Stockdale and Terence J. Toth. During the fiscal year ended October 31, 2012, the Dividend Committee met four times.

The Board has an Audit Committee, in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act), that is composed of Independent Board Members who are also independent as that term is defined in the listing standards pertaining to closed-end funds of the New York Stock Exchange (NYSE) or NYSE MKT, as applicable. The Audit Committee assists the Board in the oversight and monitoring of the accounting and reporting policies, processes and practices of the Funds, and the audits of the financial statements of the Funds; the quality and integrity of the financial statements of the Funds; the Funds' compliance with legal and regulatory requirements relating to the Funds' financial statements; the independent auditors' qualifications, performance and independence; and the pricing procedures of the Funds and the internal valuation group of Nuveen. It is the responsibility of the Audit Committee to select, evaluate and replace any independent auditors (subject only to Board and, if applicable, shareholder ratification) and to determine their compensation. The Audit Committee is also responsible for, among other things, overseeing the valuation of securities comprising the Funds' portfolios. Subject to the Board's general supervision of such actions, the Audit Committee addresses any valuation issues, oversees the Funds' pricing procedures and actions taken by Nuveen's internal valuation group which provides regular reports to the committee, reviews any issues relating to the valuation of the Funds' securities brought to its attention and considers the risks to the Funds in assessing the possible resolutions to these matters. The Audit Committee may also consider any financial risk exposures for the Funds in conjunction with performing its functions.

To fulfill its oversight duties, the Audit Committee receives annual and semi-annual reports and has regular meetings with the external auditors for the Funds and the internal audit group at Nuveen. The Audit Committee also may review in a general manner the processes the Board or other Board committees have in place with respect to risk assessment and risk management as well as compliance with legal and regulatory matters relating to the Funds' financial statements. The Audit Committee operates under a written Audit Committee Charter adopted and approved by the Board, which Charter conforms to the listing standards of the NYSE or NYSE MKT, as applicable. Members of the Audit Committee are independent (as set forth in the Charter) and free of any relationship that, in the opinion of the Board Members, would interfere with their exercise of independent judgment as an Audit Committee member. The members of the Audit Committee are Robert P. Bremner, David J. Kundert, Chair, William J. Schneider, Carole E. Stone and Terence J. Toth, each of whom is an Independent Board Member of the Funds. During the fiscal year ended October 31, 2012, the Audit Committee met four times.

The Compliance, Risk Management and Regulatory Oversight Committee (the Compliance Committee) is responsible for the oversight of compliance issues, risk management and other regulatory matters affecting the Funds that are not otherwise under or within the jurisdiction of the other committees. The Board has adopted and periodically reviews policies and procedures designed to address the Funds' compliance and risk matters. As part of its duties, the Compliance Committee reviews the policies and procedures relating to compliance matters and recommends modifications thereto as necessary or appropriate to the full Board; develops new policies and procedures as new regulatory matters affecting the Funds arise from time to time; evaluates or considers any comments or reports from examinations from regulatory authorities and responds thereto; and performs any special reviews, investigations or other oversight responsibilities relating to risk management, compliance and/or regulatory matters as requested by the Board.

In addition, the Compliance Committee is responsible for risk oversight, including, but not limited to, the oversight of risks related to investments and operations. Such risks include, among other things, exposures to particular issuers, market sectors, or types of securities; risks related to product structure elements, such as leverage; and techniques that may be used to address those risks, such as hedging and swaps. In assessing issues brought to the Compliance Committee's attention or in reviewing a particular policy, procedure, investment technique or strategy, the Compliance Committee evaluates the risks to the Funds in adopting a particular approach or resolution compared to the anticipated benefits to the Funds and their shareholders. In fulfilling its obligations, the Compliance Committee meets on a quarterly basis, and at least once a year in person. The Compliance Committee receives written and oral reports from the Funds' Chief Compliance Officer (CCO) and meets privately with the CCO at each of its quarterly meetings. The CCO also provides an annual report to the full Board regarding the operations of the Funds' and other service providers' compliance programs as well as any recommendations for modifications thereto. The Compliance Committee also receives reports from the investment services group of Nuveen regarding various investment risks. Notwithstanding the foregoing, the full Board also participates in discussions with management regarding certain matters relating to investment risk, such as the use of leverage and hedging. The investment services group therefore also reports to the full Board at its quarterly meetings regarding, among other things, Fund performance and the various drivers of such performance. Accordingly, the Board directly and/or in conjunction with the Compliance Committee oversees matters relating to investment risks. Matters not addressed at the committee level are addressed directly by the full Board. The Compliance Committee operates under a written charter adopted and approved by the Board. The members of the Compliance Committee are Jack B. Evans, William C. Hunter, William J. Schneider, Judith M. Stockdale, Chair, and Virginia L. Stringer. During the fiscal year ended October 31, 2012, the Compliance Committee met six times.

The Nominating and Governance Committee is responsible for seeking, identifying and recommending to the Board qualified candidates for election or appointment to the Board. In addition, the Nominating and Governance Committee oversees matters of corporate governance, including the evaluation of Board performance and processes, the assignment and rotation of committee members, and the establishment of corporate governance guidelines and procedures, to the extent necessary or desirable, and matters related thereto. Although the unitary and committee structure has been developed over the years and the Nominating and Governance Committee believes the structure has provided efficient and effective governance, the committee recognizes that as demands on the Board evolve over time (such as through an increase in the number of funds overseen or an increase in the complexity of the issues raised), the committee must continue to evaluate the Board and committee structures and their processes and modify the foregoing as may be necessary or appropriate to continue



to provide effective governance. Accordingly, the Nominating and Governance Committee has a separate meeting each year to, among other things, review the Board and committee structures, their performance and functions, and recommend any modifications thereto or alternative structures or processes that would enhance the Board's governance over the Funds' business.

In addition, the Nominating and Governance Committee, among other things, makes recommendations concerning the continuing education of Board Members; monitors performance of legal counsel and other service providers; establishes and monitors a process by which security holders are able to communicate in writing with Board Members; and periodically reviews and makes recommendations about any appropriate changes to Board Member compensation. In the event of a vacancy on the Board, the Nominating and Governance Committee receives suggestions from various sources, including shareholders, as to suitable candidates. Suggestions should be sent in writing to Lorna Ferguson, Manager of Fund Board Relations, Nuveen Investments, 333 West Wacker Drive, Chicago, IL 60606. The Nominating and Governance Committee sets appropriate standards and requirements for nominations for new Board Members, and each nominee is evaluated using the same standards. However, the Nominating and Governance Committee reserves the right to interview any and all candidates and to make the final selection of any new Board Members. In considering a candidate's qualifications, each candidate must meet certain basic requirements, including relevant skills and experience, time availability (including the time requirements for due diligence site visits to internal and external sub-advisers and service providers) and, if qualifying as an Independent Board Member candidate, independence from the Adviser, sub-advisers, underwriters or other service providers, including any affiliates of these entities. These skill and experience requirements may vary depending on the current composition of the Board, since the goal is to ensure an appropriate range of skills, diversity and experience, in the aggregate. Accordingly, the particular factors considered and weight given to these factors will depend on the composition of the Board and the skills and backgrounds of the incumbent Board Member at the time of consideration of the nominees. All candidates, however, must meet high expectations of personal integrity, independence, governance experience and professional competence. All candidates must be willing to be critical within the Board and with management and yet maintain a collegial and collaborative manner toward other Board Members. The Nominating and Governance Committee operates under a written charter adopted and approved by the Board, a copy of which is available on the Funds' website at <http://www.nuveen.com/CEF/Shareholder/FundGovernance.aspx>, and is composed entirely of Independent Board Members who are also independent as defined by NYSE or NYSE MKT listing standards, as applicable. Accordingly, the members of the Nominating and Governance Committee are Robert P. Bremner, Chair, Jack B. Evans, William C. Hunter, David J. Kundert, William J. Schneider, Judith M. Stockdale, Carole E. Stone, Virginia L. Stringer and Terence J. Toth. During the fiscal year ended October 31, 2012, the Nominating and Governance Committee met six times.

Effective January 1, 2012, the Board approved the creation of the Closed-End Funds Committee. The Closed-End Funds Committee is responsible for assisting the Board in the oversight and monitoring of the Nuveen funds that are registered as closed-end management investment companies (Closed-End Funds). The committee may review and evaluate matters related to the formation and the initial presentation to the Board of any new Closed-End Fund and may review and evaluate any matters relating to any existing Closed-End Fund. The committee operates under a written charter adopted and approved by the Board. The members of the Closed-End Funds Committee are Robert P. Bremner, Jack B. Evans, William C. Hunter, William J. Schneider, Chair, and Carole E. Stone. During the period from January 1, 2012 through October 31, 2012, the Closed-End Funds Committee met two times.

### **Board Diversification and Board Member Qualifications**

In determining that a particular Board Member was qualified to serve on the Board, the Board has considered each Board Member's background, skills, experience and other attributes in light of the composition of the Board with no particular factor controlling. The Board believes that Board Members need to have the ability to critically review, evaluate, question and discuss information provided to them, and to interact effectively with Fund management, service providers and counsel, in order to exercise effective business judgment in the performance of their duties, and the Board believes each Board Member satisfies this standard. An effective Board Member may achieve this ability through his or her educational background; business, professional training or practice; public service or academic positions; experience from service as a trustee or executive of investment funds, public companies or significant private or not-for-profit entities or other organizations; and or/other life experiences. Accordingly, set forth below is a summary of the experiences, qualifications, attributes and skills that led to the conclusion, as of the date of this document, that each Board Member should continue to serve in that capacity. References to the experiences, qualifications, attributes and skills of Board Members are pursuant to requirements of the SEC, do not constitute holding out the Board or any Board Member as having any special expertise or experience and shall not impose any greater responsibility or liability on any such person or on the Board by reason thereof.

#### ***John P. Amboian***

Mr. Amboian, an interested Board Member of the Funds, joined Nuveen Investments, Inc. in June 1995 and became Chief Executive Officer in July 2007 and Chairman in November 2007. Prior to this, since 1999, he served as President with responsibility for the firm's product, marketing, sales, operations and administrative activities. Mr. Amboian initially served Nuveen Investments as Executive Vice President and Chief Financial Officer. Prior to joining Nuveen Investments, Mr. Amboian held key management positions with two consumer product firms affiliated with the Phillip Morris Companies. He served as Senior Vice President of Finance, Strategy and Systems at Miller Brewing Company. Mr. Amboian began his career in corporate and international finance at Kraft Foods, Inc., where he eventually served as Treasurer. He received a Bachelor's degree in economics and a Master of Business Administration (MBA) from the University of Chicago. Mr. Amboian serves on the Board of Directors of Nuveen Investments, Inc. and is a director or trustee of the Investment Company Institute Board of Governors, Boys and Girls Clubs of Chicago, Children's Memorial Hospital and Foundation, the Council on the Graduate School of Business (University of Chicago), and the North Shore Country Day School Foundation. He is also a member of the Civic Committee of the Commercial Club of Chicago and the Economic Club of Chicago.

#### ***Robert P. Bremner***

Mr. Bremner, the Board's Independent Chairman, is a private investor and management consultant in Washington, D.C. His biography of William McChesney Martin, Jr., a former chairman of the Federal Reserve Board, was published by Yale University Press in November 2004. From 1994 to 1997, he was a Senior Vice President at Samuels International Associates, an international consulting firm specializing in governmental policies, where he served in a part-time capacity. Previously, Mr. Bremner was a partner in the LBK Investors Partnership and was chairman and majority stockholder with ITC Investors Inc., both private investment firms. He currently serves on the Board and as Treasurer of the Humanities Council of Washington, D.C. and is a Board Member of the Independent Directors Council affiliated with the Investment Company Institute. From 1984 to 1996,

Mr. Bremner was an independent director of the Flagship Funds, a group of municipal open-end funds. He began his career at the World Bank in Washington, D.C. He graduated with a Bachelor of Science degree from Yale University and received his MBA from Harvard University.

***Jack B. Evans***

President of the Hall-Perrine Foundation, a private philanthropic corporation, since 1996, Mr. Evans was formerly President and Chief Operating Officer of the SCI Financial Group, Inc., a regional financial services firm headquartered in Cedar Rapids, Iowa. Formerly, he was a member of the Board of the Federal Reserve Bank of Chicago as well as a Director of Alliant Energy. Mr. Evans is Chairman of the Board of United Fire Group, sits on the Board of the Source Media Group, is President Pro Tem of the Board of Regents for the State of Iowa University System, and is a Life Trustee of Coe College. He has a Bachelor of Arts degree from Coe College and an MBA from the University of Iowa.

***William C. Hunter***

Mr. Hunter became Dean Emeritus of the Henry B. Tippie College of Business at the University of Iowa on June 30, 2012. He was appointed Dean of the Henry B. Tippie College of Business at the University of Iowa effective July 1, 2006. He had been Dean and Distinguished Professor of Finance at the University of Connecticut School of Business since June 2003. From 1995 to 2003, he was the Senior Vice President and Director of Research at the Federal Reserve Bank of Chicago. While there, he served as the Bank's Chief Economist and was an Associate Economist on the Federal Reserve System's Federal Open Market Committee (FOMC). In addition to serving as a Vice President in charge of financial markets and basic research at the Federal Reserve Bank in Atlanta, he held faculty positions at Emory University, Atlanta University, the University of Georgia and Northwestern University. A past Director of the Credit Research Center at Georgetown University and past President of the Financial Management Association International, he has consulted with numerous foreign central banks and official agencies in Western Europe, Central and Eastern Europe, Asia, Central America and South America. From 1990 to 1995, he was a U.S. Treasury Advisor to Central and Eastern Europe. He has been a Director of the Xerox Corporation since 2004 and Wellmark, Inc. since 2009. He is Director and President of Beta Gamma Sigma, Inc., The International Business Honor Society.

***David J. Kundert***

Mr. Kundert retired in 2004 as Chairman of JPMorgan Fleming Asset Management, as President and CEO of Banc One Investment Advisors Corporation, and as President of One Group Mutual Funds. Prior to the merger between Bank One Corporation and JPMorgan Chase and Co., he was Executive Vice President, Bank One Corporation and, since 1995, the Chairman and CEO, Banc One Investment Management Group. From 1988 to 1992, he was President and CEO of Bank One Wisconsin Trust Company. Currently, Mr. Kundert is a Director of the Northwestern Mutual Wealth Management Company. He started his career as an attorney for Northwestern Mutual Life Insurance Company. Mr. Kundert has served on the Board of Governors of the Investment Company Institute, and he is currently a member of the Wisconsin Bar Association. He is on the Board of the Greater Milwaukee Foundation and chairs its Investment Committee. He is a Regent Emeritus and a Member of the Investment Committee of Luther College. He is also a Member of the Board of Directors (Milwaukee), College Possible. He received his Bachelor of Arts degree from Luther College and his Juris Doctor from Valparaiso University.

***William J. Schneider***

Mr. Schneider is currently Chairman, formerly Senior Partner and Chief Operating Officer (retired, December 2004) of Miller-Valentine Partners Ltd., a real estate investment company. He is also a Member of two Miller Valentine real estate LLC companies. Mr. Schneider is a member of the Business Advisory Council for the University of Dayton College of Business. He is a Board Member of Tech Town, Inc., a not-for-profit community development company, and a Board Member of WDPR Public Radio. He was formerly a Director and Past Chair of the Dayton Development Coalition. He was formerly a member of the Community Advisory Board of the National City Bank in Dayton as well as a former member of the Business Advisory Council of the Cleveland Federal Reserve Bank. Mr. Schneider is a member of the Business Advisory Council for the University of Dayton College of Business. Mr. Schneider was an independent director of the Flagship Funds, a group of municipal open-end funds. He also served as Chair of the Miami Valley Hospital and as Chair of the Finance Committee of its parent holding company. Mr. Schneider has a Bachelor of Science in Community Planning from the University of Cincinnati and a Master of Public Administration from the University of Dayton.

***Judith M. Stockdale***

Ms. Stockdale retired at the end of 2012 as Executive Director of the Gaylord and Dorothy Donnelley Foundation, a private foundation working in land conservation and artistic vitality in the Chicago region and the Lowcountry of South Carolina. Her previous positions include Executive Director of the Great Lakes Protection Fund, Executive Director of Openlands, and Senior Staff Associate at the Chicago Community Trust. She has served on the Boards of the Land Trust Alliance, the National Zoological Park, the Governor's Science Advisory Council (Illinois), the Nancy Ryerson Ranney Leadership Grants Program, Friends of Ryerson Woods and the Donors Forum. Ms. Stockdale, a native of the United Kingdom, has a Bachelor of Science degree in geography from the University of Durham (UK) and a Master of Forest Science degree from Yale University.

***Carole E. Stone***

Ms. Stone retired from the New York State Division of the Budget in 2004, having served as its Director for nearly five years and as Deputy Director from 1995 through 1999. Ms. Stone is currently on the Board of Directors of the Chicago Board Options Exchange, CBOE Holdings, Inc. and C2 Options Exchange, Incorporated. She has also served as the Chair of the New York Racing Association Oversight Board, as Chair of the Public Authorities Control Board, as a Commissioner on the New York State Commission on Public Authority Reform and as a member of the Boards of Directors of several New York State public authorities. Ms. Stone has a Bachelor of Arts from Skidmore College in Business Administration.

***Virginia L. Stringer***

Ms. Stringer served as the independent chair of the Board of the First American Funds from 1997 to 2010, having joined that Board in 1987. Ms. Stringer serves on the Governing Board of the Investment Company Institute's Independent Directors Council and on the board of the Mutual Fund Directors Forum. She is a recipient of the Outstanding Corporate Director award from Twin Cities Business Monthly and the Minnesota Chapter of the National Association of Corporate Directors. Ms. Stringer is the past board chair of the Oak Leaf also served as Trust, director emeritus and former

Chair of the Saint Paul Riverfront Corporation and President of the Minneapolis Club's Governing Board. She is a director and former board chair of the Minnesota Opera and a Life Trustee and former board chair of the Voyageur Outward Bound School. She also served as a trustee of Outward Bound USA. She was appointed by the Governor of Minnesota Board on Judicial Standards and also served on a Minnesota Supreme Court Judicial Advisory Committee to reform the state's judicial disciplinary process. She is a member of the International Women's Forum and attended the London Business School as an International Business Fellow. Ms. Stringer recently served as board chair of the Human Resource Planning Society, the Minnesota Women's Campaign Fund and the Minnesota Women's Economic Roundtable. Ms. Stringer is the retired founder of Strategic Management Resources, a consulting practice focused on corporate governance, strategy and leadership. She has twenty five years of corporate experience having held executive positions in general management, marketing and human resources with IBM and the Pillsbury Company.

***Terence J. Toth***

Mr. Toth is a Managing Partner at Promus Capital since 2008. From 2008 to 2013, he served as a Director of Legal & General Investment Management America, Inc. From 2004 to 2007, he was Chief Executive Officer and President of Northern Trust Global Investments, and Executive Vice President of Quantitative Management & Securities Lending from 2000 to 2004. He also formerly served on the Board of the Northern Trust Mutual Funds. He joined Northern Trust in 1994 after serving as Managing Director and Head of Global Securities Lending at Bankers Trust (1986 to 1994) and Head of Government Trading and Cash Collateral Investment at Northern Trust from 1982 to 1986. He currently serves on the Boards of Chicago Fellowship, Fulcrum IT Service LLC (since 2010), Quality Control Corporation (since 2012) and LogicMark LLC (since 2012), and is Chairman of the Board of Catalyst Schools of Chicago. He is on the Mather Foundation board (since 2012) and is a member of its investment committee. Mr. Toth graduated with a Bachelor of Science degree from the University of Illinois, and he received his MBA from New York University. In 2005, he graduated from the CEO Perspectives Program at Northwestern University.

**Independent Chairman**

Robert P. Bremner currently serves as the independent Chairman of the Board. Specific responsibilities of the Chairman include: (a) presiding at all meetings of the Board and of the shareholders; (b) seeing that all orders and resolutions of the Board Members are carried into effect; and (c) maintaining records of and, whenever necessary, certifying all proceedings of the Board Members and the shareholders.

**Board Member Terms**

The Board is divided into three classes, Class I, Class II and Class III, to be elected by the holders of the outstanding common shares and any outstanding preferred shares, voting together as a single class, to serve until the third succeeding annual meeting subsequent to their election or thereafter, in each case until their successors have been duly elected and qualified. These provisions could delay for up to two years the replacement of a majority of the Board. Under normal circumstances, holders of preferred shares (including holders of VMTP Shares), voting separately, are entitled to elect two Board Members. The Board Members elected by holders of preferred shares serve until the next annual meeting or until their successors have been duly elected and qualified. Holders of preferred shares will be entitled to elect a majority of the Fund's Board Members under certain circumstances.

See the Joint Proxy Statement/Prospectus under Certain Provisions in the Acquiring Fund's Declaration of Trust and By-Laws.

**Share Ownership**

The following table sets forth the dollar range of equity securities beneficially owned by each Board Member as of December 31, 2012:

| Name of Board Member | Dollar Range of Equity Securities in the Acquiring Fund | Dollar Range of Equity Securities in the Target Fund | Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Board Member in Family of Investment Companies |
|----------------------|---|--|---|
| John P. Amboian      | \$ 0.00   | \$ 0.00  | Over \$ 100,000   |
| Robert P. Bremner    | \$0.00  | \$ 0.00  | Over \$ 100,000   |
| Jack B. Evans        | \$0.00  | \$ 0.00  | Over \$ 100,000   |
| William C. Hunter    | \$0.00  | \$ 0.00  | Over \$ 100,000   |
| David J. Kundert     | \$0.00  | \$ 0.00  | Over \$ 100,000   |
| William J. Schneider | \$0.00  | \$ 0.00  | Over \$ 100,000   |
| Judith M. Stockdale  | \$0.00  | \$ 0.00  | Over \$ 100,000   |
| Carole E. Stone      | \$0.00  | \$ 0.00  | Over \$ 100,000   |
| Virginia L. Stringer | \$0.00  | \$ 0.00  | Over \$ 100,000   |
| Terence J. Toth      | \$0.00  | \$ 0.00  | Over \$ 100,000   |

No Board Member who is not an interested person of the Funds or his immediate family member owns beneficially or of record, any security of Nuveen Fund Advisors, Nuveen Asset Management, Nuveen or any person (other than a registered investment company) directly or indirectly controlling, controlled by or under common control with Nuveen Fund Advisors, Nuveen Asset Management or Nuveen.

As of April 1, 2013 the executive officers and Board Members of the Funds, in the aggregate, own less than 1% of the Acquiring Fund's equity securities.

Information regarding shareholders or groups of shareholders who beneficially own more than 5% of a class of shares of a Fund is provided below. Information in the table below regarding the number and percentage of shares owned is based on a review of Schedule 13D and 13G filings and amendments made on or before March 15, 2013.

| Fund and Class               | Shareholder Name and Address   | Number of Shares Owned | Percentage Owned | Estimated Pro Forma Corresponding Class of Combined Fund | All Preferred Shares of Combined Fund |
|------------------------------|--|------------------------|------------------|--|---------------------------------------|
| Acquiring Fund Common Shares | First Trust Portfolios L.P., <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187 | 3,685,592              | 12.94%           | 13.46%   | N/A                                   |
|                              | First Trust Advisors L.P., <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187   |                        |                  |  |                                       |

| Fund and Class                | Shareholder Name and Address   | Number of Shares Owned | Percentage Owned | Estimated Pro Forma Corresponding Class of Combined Fund | All Preferred Shares of Combined Fund |
|-------------------------------|--|------------------------|------------------|--|---------------------------------------|
|                               | The Charger Corporation, <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                       |                        |                  |  |                                       |
| Acquiring Fund<br>VMTP Shares | Bank of America Corporation, <sup>(b)</sup> Bank of<br>America Corporate Center, 100 North<br>Tryon Street, Charlotte, North Carolina<br>28255 | 510                    | 100%             | 100%   | 100%                                  |
|                               | Banc of America Preferred<br>Funding Corporation, <sup>(b)</sup><br>214 North Tryon Street, Charlotte, North<br>Carolina 28255                 |                        |                  |  |                                       |
| Target Fund<br>Common Shares  | First Trust Portfolios L.P., <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                   | 3,090,204              | 17.14%           | 13.46%   | N/A                                   |
|                               | First Trust Advisors L.P., <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                     |                        |                  |  |                                       |
|                               | The Charger Corporation, <sup>(a)</sup><br>120 East Liberty Drive, Suite 400,<br>Wheaton, Illinois 60187                                       |                        |                  |  |                                       |
| Target Fund<br>VMTP Shares    | Bank of America Corporation, <sup>(b)</sup> Bank of<br>America Corporate Center, 100 North<br>Tryon Street, Charlotte, North Carolina<br>28255 | 360                    | 100%             | 100%   | 100%                                  |
|                               | Banc of America Preferred<br>Funding Corporation, <sup>(b)</sup><br><br>214 North Tryon Street, Charlotte, North<br>Carolina 28255             |                        |                  |  |                                       |

(a) First Trust Portfolios L.P., First Trust Advisors L.P. and The Charger Corporation filed their Schedule 13G jointly and did not differentiate holdings as to each entity.

(b) Bank of America Corporation and Banc of America Preferred Funding Corporation filed their Schedule 13D jointly and did not differentiate holdings as to each entity.

#### Compensation

Effective January 1, 2013, Independent Board Members receive a \$140,000 annual retainer plus (a) a fee of \$4,500 per day for attendance in person or by telephone at regularly scheduled meetings of the Board; (b) a fee of \$3,000 per meeting for attendance in person or by telephone at special, non-regularly scheduled meetings of the Board where in-person attendance is required and \$2,000 per meeting for attendance by telephone or in person at such meetings where in-person attendance is not required; (c) a fee of \$2,500 per meeting for attendance in person or by telephone at Audit Committee meetings where in-person attendance is required and \$2,000 per meeting for attendance by telephone

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or in person at such meetings where in-person attendance is not required; (d) a fee of \$2,500 per meeting for attendance in person or by telephone at Compliance, Risk Management and Regulatory Oversight Committee meetings where in-person attendance is required and \$2,000 per meeting for attendance by telephone or in person at such meetings where in-person attendance is not required; (e) a fee of \$1,000 per meeting for attendance in person or by telephone at Dividend Committee meetings; (f) a fee of \$500 per meeting for attendance in person or by telephone at all other committee meetings (\$1,000 for shareholder meetings) where in-person attendance is required and \$250 per meeting for attendance by telephone or in person at such committee meetings (excluding shareholder meetings) where in-person attendance is not required, and \$100 per meeting when the Executive Committee acts as pricing committee for IPOs, plus, in each case, expenses incurred in attending such meetings, provided that no fees are received for meetings held on days on which regularly scheduled Board meetings are held; and (g) a fee of \$2,500 per meeting for attendance in person or by telephone at Closed-End Funds Committee meetings where in-person attendance is required and \$2,000 per meeting for attendance by telephone or in person at such meetings where in-person attendance is not required; provided that no fees are received for meetings held on days on which regularly scheduled Board meetings are held. In addition to the payments described above, the Chairman of the Board receives \$75,000, the chairpersons of the Audit Committee, the Dividend Committee, the Compliance, Risk Management and Regulatory Oversight Committee and the Closed-End Funds Committee receive \$12,500 each and the chairperson of the Nominating and Governance Committee receives \$5,000 as additional retainers. Independent Board Members also receive a fee of \$3,000 per day for site visits to entities that provide services to the Nuveen funds on days on which no Board meeting is held. When ad hoc committees are organized, the Nominating and Governance Committee will at the time of formation determine compensation to be paid to the members of such committee; however, in general, such fees will be \$1,000 per meeting for attendance in person or by telephone at ad hoc committee meetings where in-person attendance is required and \$500 per meeting for attendance by telephone or in person at such meetings where in-person attendance is not required. The annual retainer, fees and expenses are allocated among the Nuveen funds on the basis of relative net assets, although management may, in its discretion, establish a minimum amount to be allocated to each Fund.

The Funds do not have retirement or pension plans. Certain Nuveen funds (the Participating Funds ) participate in a deferred compensation plan (the Deferred Compensation Plan ) that permits an Independent Board Member to elect to defer receipt of all or a portion of his or her compensation as an Independent Board Member. The deferred compensation of a participating Independent Board Member is credited to a book reserve account of the Participating Fund when the compensation would otherwise have been paid to the Board Member. The value of the Board Member's deferral account at any time is equal to the value that the account would have had if contributions to the account had been invested and reinvested in shares of one or more of the eligible Nuveen funds. At the time for commencing distributions from a Board Member's deferral account, the Independent Board Member may elect to receive distributions in a lump sum or over a period of five years. The Participating Fund will not be liable for any other fund's obligations to make distributions under the Deferred Compensation Plan.

The Funds have no employees. The officers of the Funds and the Board Member of each Fund who is not an Independent Board Member serve without any compensation from the Funds.



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The table below shows, for each Independent Board Member, the aggregate compensation paid by each Fund to each Board Member for the fiscal year ended October 31, 2012:

|   | Aggregate Compensation from the Funds <sup>(1)</sup> |                   |                   |                   |                      |                     |                   |                      |                   |
|---|--|-------------------|-------------------|-------------------|----------------------|---------------------|-------------------|----------------------|-------------------|
|   | Robert P. Bremner                                    | Jack B. Evans     | William C. Hunter | David J. Kundert  | William J. Schneider | Judith M. Stockdale | Carole E. Stone   | Virginia L. Stringer | Terence J. Toth   |
| Acquiring Fund  | \$ 1,433   | \$ 1,072          | \$ 994            | \$ 1,085          | \$ 1,193             | \$ 1,079            | \$ 1,090          | \$ 982               | \$ 1,163          |
| Target Fund   | 889  | 662               | 610               | 667               | 735                  | 662                 | 677               | 610                  | 723               |
| <b>Total Compensation from Nuveen Funds Paid to Board Members<sup>(2)</sup></b> | <b>\$ 343,204</b>                                    | <b>\$ 262,670</b> | <b>\$ 240,509</b> | <b>\$ 267,712</b> | <b>\$ 284,299</b>    | <b>\$ 261,411</b>   | <b>\$ 263,100</b> | <b>\$ 248,600</b>    | <b>\$ 298,475</b> |

(1) Includes deferred fees. Pursuant to the Deferred Compensation Plan, deferred amounts are treated as though an equivalent dollar amount has been invested in shares of one or more eligible Nuveen funds. Total deferred fees for the Funds (including the return from the assumed investment in the eligible Nuveen funds) payable are:

|                | Robert P. Bremner | Jack B. Evans | William C. Hunter | David J. Kundert | William J. Schneider | Judith M. Stockdale | Carole E. Stone | Virginia L. Stringer | Terence J. Toth |
|----------------|-------------------|---------------|-------------------|------------------|----------------------|---------------------|-----------------|----------------------|-----------------|
| Acquiring Fund | \$ 217            | \$ 272        | \$ 266            | \$ 1,085         | \$ 915               | \$ 679              | \$              | \$                   | \$              |
| Target Fund    | 32                | 39            |                   | 169              | 175                  | 102                 |                 |                      |                 |

(2) Based on total compensation paid, including deferred fees (including the return from the assumed investment in the eligible Nuveen funds), to the Board Members for the calendar year ended December 31, 2012 for services to the Nuveen open-end and closed-end funds advised by the Adviser.

**INVESTMENT ADVISER AND SUB-ADVISER**

**Investment Adviser**

Nuveen Fund Advisors, the Funds' investment adviser, is responsible for determining the Funds' overall investment strategy and its implementation. Nuveen Fund Advisors also is responsible for managing operations and each Fund's business affairs and providing certain clerical, bookkeeping and other administrative services to each Fund. For additional information regarding the management services performed by Nuveen Fund Advisors, including the biography of the Funds' portfolio manager and further information about the investment management agreement between the Fund and Nuveen Fund Advisors, see Management of the Fund in the Fund's Prospectus.

Nuveen Fund Advisors, 333 West Wacker Drive, Chicago, Illinois 60606, a registered investment adviser, is a wholly-owned subsidiary of Nuveen Investments. Founded in 1898, Nuveen Investments and its affiliates had approximately \$220 billion of assets under management as of September 30, 2012.

Nuveen Investments provides high-quality investment services designed to help secure the long-term goals of institutions and high net-worth investors as well as the consultants and financial advisers who serve them. Nuveen Investments markets its specialized investment solutions under the high-quality brands of NWQ, Nuveen, Santa Barbara, Symphony, Tradewinds, Gresham and Winslow Capital.

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The total dollar amounts paid to Nuveen Fund Advisors by each Fund under each Fund's management agreement for the last three fiscal years for which financial statements are available are as follows:

| Acquiring Fund           | 10/31/2012          | 10/31/2011          | 10/31/2010          |
|--------------------------|---------------------|---------------------|---------------------|
| Gross Advisory Fees      | \$ 3,640,542        | \$ 2,926,741        | \$ 2,890,121        |
| Waiver                   | \$ 30,160           | \$ 353,870          | \$ 665,011          |
| <b>Net Advisory Fees</b> | <b>\$ 3,610,382</b> | <b>\$ 2,572,871</b> | <b>\$ 2,225,110</b> |

| Target Fund              | 10/31/2012          | 10/31/2011          | 10/31/2010          |
|--------------------------|---------------------|---------------------|---------------------|
| Gross Advisory Fees      | \$ 2,423,580        | \$ 2,178,793        | \$ 2,157,036        |
| Waiver                   | \$                  | \$                  | \$                  |
| <b>Net Advisory Fees</b> | <b>\$ 2,423,580</b> | <b>\$ 2,178,793</b> | <b>\$ 2,157,036</b> |

### Sub-Adviser

Effective as of January 1, 2011, Nuveen Fund Advisors has selected Nuveen Asset Management to serve as sub-adviser to each Fund. Nuveen Fund Advisors compensates Nuveen Asset Management for the portfolio management services it provides to the Funds from the management fees paid by the Funds. Nuveen Fund Advisors and Nuveen Asset Management retain the right to reallocate investment advisory responsibilities and fees between themselves in the future.

Nuveen Fund Advisors pays Nuveen Asset Management a portfolio management fee equal to 46.6667% of net advisory fees. The total dollar amounts paid to Nuveen Asset Management by Nuveen Fund Advisors for the fiscal year ended October 31, 2012 were \$1,684,846 for the Acquiring Fund and \$1,131,005 for the Target Fund.

### PORTFOLIO MANAGER

Unless otherwise indicated, the information below is provided as of the date of this SAI.

*Portfolio Management.* John V. Miller, CFA, is the portfolio manager of each Fund.

In addition to managing the Funds, John V. Miller is also primarily responsible for the day-to-day portfolio management of the following accounts. Information is provided as of October 31, 2012.

| Type of Account Managed          | Number of<br>Accounts | Assets*           |
|----------------------------------|-----------------------|-------------------|
| Registered Investment Company    | 7                     | \$ 12.714 billion |
| Other Pooled Investment Vehicles | 6                     | \$ 475 million    |
| Other Accounts                   | 12                    | \$ 3.3 million    |

\* None of the assets in these accounts is subject to an advisory fee based on performance.

### Compensation

Portfolio manager compensation consists primarily of base pay, an annual cash bonus and long-term incentive payments.

*Base pay.* Base pay is determined based upon an analysis of the portfolio manager's general performance, experience, and market levels of base pay for such position.

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*Annual cash bonus.* The Funds' portfolio managers are eligible for an annual cash bonus based on pre-tax investment performance, qualitative evaluation and financial performance of Nuveen Asset Management.

A portion of each portfolio manager's annual cash bonus is based on the Fund's investment performance, generally measured over the past one- and three or five-year periods unless the portfolio manager's tenure is shorter. Investment performance for the Fund generally is determined by evaluating the Fund's performance relative to its benchmark(s) and/or Lipper industry peer group.

A portion of the cash bonus is based on a qualitative evaluation made by each portfolio manager's supervisor taking into consideration a number of factors, including the portfolio manager's team collaboration, expense management, support of personnel responsible for asset growth, and his or her compliance with Nuveen Asset Management's policies and procedures.

The final factor influencing a portfolio manager's cash bonus is the financial performance of Nuveen Asset Management based on its operating earnings.

*Long-term Incentive Compensation.* Certain key employees of Nuveen Investments and its affiliates, including certain portfolio managers, have received equity interests in the parent company of Nuveen Investments. In addition, certain key employees of Nuveen Asset Management, including certain portfolio managers, have received profits interests in Nuveen Asset Management which entitle their holders to participate in the firm's growth over time.

*Conflicts of Interest.* Actual or apparent conflicts of interest may arise when a portfolio manager has day-to-day management responsibilities with respect to more than one account. More specifically, portfolio managers who manage multiple accounts are presented a number of potential conflicts, including, among others, those discussed below.

The management of multiple accounts may result in a portfolio manager devoting unequal time and attention to the management of each account. Nuveen Asset Management seeks to manage such competing interests for the time and attention of portfolio managers by having portfolio managers focus on a particular investment discipline. Most accounts managed by a portfolio manager in a particular investment strategy are managed using the same investment models.

If a portfolio manager identifies a limited investment opportunity which may be suitable for more than one account, an account may not be able to take full advantage of that opportunity due to an allocation of filled purchase or sale orders across all eligible accounts. To deal with these situations, Nuveen Asset Management has adopted procedures for allocating limited opportunities across multiple accounts.

With respect to many of its clients' accounts, Nuveen Asset Management determines which broker to use to execute transaction orders, consistent with its duty to seek best execution of the transaction. However, with respect to certain other accounts, Nuveen Asset Management may be limited by the client with respect to the selection of brokers or may be instructed to direct trades through a particular broker. In these cases, Nuveen Asset Management may place separate, non-simultaneous, transactions for a Fund and other accounts which may temporarily affect the market price of the security or the execution of the transaction, or both, to the detriment of the Fund or the other accounts.

Some clients are subject to different regulations. As a consequence of this difference in regulatory requirements, some clients may not be permitted to engage in all the investment techniques or transactions or to engage in these transactions to the same extent as the other accounts managed by the portfolio manager. Finally, the appearance of a conflict of interest may arise where Nuveen Asset Management has an incentive, such as a performance-based management fee, which relates to the management of some accounts, with respect to which a portfolio manager has day-to-day management responsibilities.

Nuveen Asset Management has adopted certain compliance procedures which are designed to address these types of conflicts common among investment managers. However, there is no guarantee that such procedures will detect each and every situation in which a conflict arises.

*Beneficial Ownership of Securities.* The following table sets forth the dollar range of equity securities beneficially owned by Mr. Miller as of the date of this SAI:

| <b>Portfolio Manager</b> | <b>Dollar Range of Equity Securities Beneficially Owned in the Acquiring Fund</b> | <b>Dollar Range of Equity Securities Beneficially Owned in the Target Fund</b> |
|--------------------------|---|--|
| John V. Miller           | \$ 50,001-\$100,000   | \$ 50,001-\$100,000  |

Unless earlier terminated as described below, each Fund's management agreement with Nuveen Fund Advisors will remain in effect until August 1, 2013. Each Fund's management agreement continues in effect from year to year so long as such continuation is approved at least annually by (1) the Board or the vote of a majority of the outstanding voting securities of each Fund and (2) a majority of the Board Members who are not interested persons of any party to the management agreement, cast in person at a meeting called for the purpose of voting on such approval. The management agreements may be terminated at any time, without penalty, by either the Funds or Nuveen Asset Management upon 60 days' written notice, and they are automatically terminated in the event of their assignment as defined in the 1940 Act.

The Funds, Nuveen Fund Advisors, Nuveen Asset Management, Nuveen Investments and other related entities have adopted codes of ethics under Rule 17j-1 under the 1940 Act, that essentially prohibit certain of their personnel, including the Funds' portfolio managers, from engaging in personal investments that compete or interfere with, or attempt to take advantage of a client's, including the Funds', anticipated or actual portfolio transactions, and are designed to assure that the interests of clients, including Fund shareholders, are placed before the interests of personnel in connection with personal investment transactions. The codes of ethics of the Funds, Nuveen Fund Advisors, Nuveen Asset Management and Nuveen Investments can be viewed online or downloaded from the EDGAR Database on the SEC's internet web site at [www.sec.gov](http://www.sec.gov). You may also review and copy those documents by visiting the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 202-942-8090. In addition, copies of those codes of ethics may be obtained, after mailing the appropriate duplicating fee, by writing to the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549 or by e-mail request at [publicinfo@sec.gov](mailto:publicinfo@sec.gov).

Each Fund invests its assets generally in municipal securities. On rare occasions the Funds may acquire, directly or through a special-purpose vehicle, equity securities of certain issuers whose

securities the Funds already own when such securities have deteriorated or are expected shortly to deteriorate significantly in credit quality. The purpose of acquiring equity securities generally will be to acquire control of the issuer and to seek to prevent the credit deterioration or facilitate the liquidation or other workout of the distressed issuer's credit problem. In the course of exercising control of a distressed issuer, Nuveen Asset Management may pursue the Funds' interests in a variety of ways, which may entail negotiating and executing consents, agreements and other arrangements, and otherwise influencing the management of the issuer. Nuveen Asset Management does not consider such activities proxy voting for purposes of Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended (the Advisers Act), but nevertheless provides reports to the Fund's Board on its control activities on a quarterly basis.

In the rare event that an issuer were to issue a proxy or that the Funds were to receive a proxy issued by a cash management security, Nuveen Asset Management would either engage an independent third party to determine how the proxy should be voted or vote the proxy with the consent, or based on the instructions, of the Fund's Board or its representative. A member of Nuveen Asset Management's legal department would oversee the administration of the voting and ensure that records maintained in accordance with Rule 206(4)-6 of the Advisers Act were filed with the SEC on Form N-PX, provided to the Fund's Board and made available to shareholders as required by applicable rules.

In the event of a conflict of interest that might arise when voting proxies for the Funds, Nuveen Asset Management will defer to the recommendation of an independent third party engaged to determine how the proxy should be voted, or, alternatively, members of Nuveen Asset Management's legal and compliance departments, in consultation with the Board, will examine the conflict of interest and seek to resolve such conflict in the best interest of each Fund. If a member of Nuveen Asset Management's legal or compliance department or the Board has a personal conflict of interest, that member will refrain from participating in the consultation.

Information regarding how each Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 will be available without charge by calling (800) 257-8787 or by accessing the SEC's website at <http://www.sec.gov>.

#### **PORTFOLIO TRANSACTIONS AND BROKERAGE**

Subject to the supervision of the Board, Nuveen Asset Management is responsible for decisions to purchase and sell securities for the Funds, the negotiation of the prices to be paid and the allocation of transactions among various dealer firms. Transactions on stock exchanges involve the payment by the Funds of brokerage commissions. There generally is no stated commission in the case of securities traded in the OTC market, but the prices paid by the Funds usually include an undisclosed dealer commission or mark-up. Transactions in the OTC market can also be placed with broker-dealers who act as agents and charge brokerage commissions for effecting OTC transactions. Each Fund may place its OTC transactions either directly with principal market makers, or with broker-dealers if that is consistent with Nuveen Asset Management's obligation to obtain best qualitative execution. In certain instances, the Funds may make purchases of underwritten issues at prices that include underwriting fees.

Portfolio securities may be purchased directly from an underwriter or in the OTC market from the principal dealers in such securities, unless it appears that a better price or execution may be

obtained through other means. Portfolio securities will not be purchased from Nuveen Investments or its affiliates or affiliates of Nuveen Asset Management except in compliance with the 1940 Act.

It is Nuveen Asset Management's policy to seek the best execution under the circumstances of each trade. Nuveen Asset Management will evaluate price as the primary consideration, with the financial condition, reputation and responsiveness of the dealer considered secondary in determining best execution. Given the best execution obtainable, it will be Nuveen Asset Management's practice to select dealers that, in addition, furnish research information (primarily credit analyses of issuers and general economic reports) and statistical and other services to Nuveen Asset Management. It is not possible to place a dollar value on information and statistical and other services received from dealers. Since it is only supplementary to Nuveen Asset Management's own research efforts, the receipt of research information is not expected to reduce significantly Nuveen Asset Management's expenses. While Nuveen Asset Management will be primarily responsible for the placement of the business of the Funds, Nuveen Asset Management's policies and practices in this regard must be consistent with the foregoing and will, at all times, be subject to review by the Board of the Funds.

Nuveen Asset Management may manage other investment accounts and investment companies for other clients that may invest in the same types of securities as the Funds and that may have investment objectives similar to those of the Funds. Nuveen Asset Management seeks to allocate portfolio transactions equitably whenever concurrent decisions are made to purchase or sell assets or securities by each Fund and another advisory account. If an aggregated order cannot be filled completely, allocations will generally be made on a pro rata basis. An order may not be allocated on a pro rata basis where, for example (i) consideration is given to portfolio managers who have been instrumental in developing or negotiating a particular investment; (ii) consideration is given to an account with specialized investment policies that coincide with the particulars of a specific investment; (iii) pro rata allocation would result in odd-lot or de minimis amounts being allocated to a portfolio or other client; or (iv) where Nuveen Asset Management reasonably determines that departure from a pro rata allocation is advisable. There may also be instances where a Fund will not participate at all in a transaction that is allocated among other accounts. While these allocation procedures could have a detrimental effect on the price or amount of the securities available to the Fund from time to time, it is the opinion of the Board that the benefits available from Nuveen Asset Management's management outweigh any disadvantage that may arise from Nuveen Asset Management's larger management activities and its need to allocate securities.

The following table sets forth the aggregate amount of brokerage commissions paid by the Funds for the last three fiscal years for which financial statements are available:

**Fiscal Years Ended October 31**

|                | 2012 | 2011   | 2010      |
|----------------|------|--------|-----------|
| Acquiring Fund | \$   | \$     | \$        |
| Target Fund    | \$   | \$ 102 | \$ 67,156 |

Substantially all of the Funds' trades are effected on a principal basis.

**REPURCHASE OF FUND SHARES; CONVERSION TO OPEN-END FUND**

The Acquiring Fund is a closed-end investment company, and as such its shareholders will not have the right to cause the Fund to redeem their shares. Instead, the Fund's common shares will trade

in the open market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Because shares of a closed-end investment company may frequently trade at prices lower than net asset value, the Acquiring Fund's Board has currently determined that, at least annually, it will consider action that might be taken to reduce or eliminate any material discount from net asset value in respect of common shares, which may include the repurchase of such shares in the open market or in private transactions, the making of a tender offer for such shares at net asset value, or the conversion of the Fund to an open-end investment company. There can be no assurance, however, that the Board will decide to take any of these actions, or that share repurchases or tender offers, if undertaken, will reduce market discount.

Subject to its investment limitations, the Acquiring Fund may borrow to finance the repurchase of shares or to make a tender offer. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Fund in anticipation of share repurchases or tenders will reduce the Fund's net income. Any share repurchase, tender offer or borrowing that might be approved by the Board would have to comply with the Exchange Act and the 1940 Act and the rules and regulations thereunder.

Although the decision to take action in response to a discount from net asset value will be made by the Board at the time it considers such issue, it is the Board's present policy, which may be changed by the Board, not to authorize repurchases of common shares or a tender offer for such shares if (1) such transactions, if consummated, would (a) result in the delisting of the common shares from the NYSE, the NYSE MKT or elsewhere, or (b) impair the Fund's status as a regulated investment company under the Code (which would make the Fund a taxable entity, causing the Fund's taxable income to be taxed at the corporate level in addition to the taxation of shareholders who receive dividends from the Fund) or as a registered closed-end investment company under the 1940 Act; (2) the Fund would not be able to liquidate portfolio securities in an orderly manner and consistent with the Fund's investment objectives and policies in order to repurchase shares; or (3) there is, in the Board's judgment, any (a) material legal action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Fund, (b) general suspension of or limitation on prices for trading securities on the NYSE, the NYSE MKT or elsewhere, (c) declaration of a banking moratorium by federal or state authorities or any suspension of payment by United States or state banks in which the Fund invests, (d) material limitation affecting the Fund or the issuers of its portfolio securities by federal or state authorities on the extension of credit by lending institutions or on the exchange of non-U.S. currency, (e) commencement of war, armed hostilities or other international or national calamity directly or indirectly involving the United States, or (f) other event or condition that would have a material adverse effect (including any adverse tax effect) on the Acquiring Fund or its shareholders if shares were repurchased. The Board may in the future modify these conditions in light of experience.

The repurchase by the Acquiring Fund of its shares at prices below net asset value will result in an increase in the net asset value of those shares that remain outstanding. However, there can be no assurance that share repurchases or tenders at or below net asset value will result in the Fund's shares trading at a price equal to their net asset value. Nevertheless, the fact that the Fund's shares may be the subject of repurchase or tender offers at net asset value from time to time, or that the Fund may be converted to an open-end investment company, may reduce any spread between market price and net asset value that might otherwise exist.



In addition, a purchase by the Acquiring Fund of its common shares will decrease the Fund's total assets, which would likely have the effect of increasing the Fund's expense ratio.

Conversion to an open-end company would require the approval of the holders of at least two-thirds of the Acquiring Fund's common and preferred shares, voting as a single class, and, if conversion would adversely affect the holders of the preferred shares, approval of the holders of at least two-thirds of the Fund's preferred shares, voting together as a single class, unless the conversion has been approved by the requisite vote of the Board Members, in which case a majority vote of the requisite holders would be required. See the Joint Proxy Statement/Prospectus under Certain Provisions in the Acquiring Fund's Declaration of Trust and By-Laws for a discussion of voting requirements applicable to conversion of the Fund to an open-end investment company. If the Fund converted to an open-end investment company, the Fund's common shares would no longer be listed on the NYSE, the NYSE MKT or elsewhere, and the Fund's preferred shares would no longer be outstanding. In contrast to a closed-end investment company, shareholders of an open-end investment company may require the company to redeem their shares on any business day (except in certain circumstances as authorized by or under the 1940 Act or rules thereunder) at their net asset value, less such redemption charge, if any, as might be in effect at the time of redemption. In order to avoid maintaining large cash positions or liquidating favorable investments to meet redemptions, open-end investment companies typically engage in a continuous offering of their shares. Open-end investment companies are thus subject to periodic asset in-flows and out-flows that can complicate portfolio management. The Board may at any time propose conversion of the Fund to an open-end investment company depending upon its judgment as to the advisability of such action in light of circumstances then prevailing.

Before deciding whether to take any action if the Acquiring Fund's common shares trade below net asset value, the Board would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact of any action that might be taken on the Fund or its shareholders, and market considerations. Based on these considerations, even if the Fund's shares should trade at a discount, the Board may determine that, in the interest of the Fund and its shareholders, no action should be taken.

#### **FEDERAL INCOME TAX MATTERS**

The following is a general summary of certain U.S. federal income tax consequences that may be relevant to a shareholder that acquires, holds and/or disposes of shares of the Acquiring Fund. This discussion only addresses U.S. federal income tax consequences to U.S. shareholders who hold their shares as capital assets and does not address all of the U.S. federal income tax consequences that may be relevant to particular shareholders in light of their individual circumstances. This discussion also does not address the tax consequences to shareholders who are subject to special rules, including, without limitation, shareholders with large positions in the Acquiring Fund, financial institutions, insurance companies, dealers in securities or foreign currencies, foreign holders, persons who hold their shares as or in a hedge against currency risk, a constructive sale, or conversion transaction, holders who are subject to the federal alternative minimum tax (except as discussed below), or tax-exempt or tax-deferred plans, accounts, or entities. In addition, the discussion does not address any state, local, or foreign tax consequences. The discussion reflects applicable tax laws of the United States as of the date of this SAI, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service ( IRS ) retroactively or prospectively. No attempt is made to present a detailed explanation of all U.S. federal income tax concerns affecting the Acquiring Fund

and its shareholders, and the discussion set forth herein does not constitute tax advice. INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISERS TO DETERMINE THE SPECIFIC TAX CONSEQUENCES TO THEM OF INVESTING IN THE ACQUIRING FUND, INCLUDING THE APPLICABLE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM AND THE EFFECT OF POSSIBLE CHANGES IN TAX LAWS.

The Acquiring Fund has elected to be treated, and intends to continue to qualify each year, as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code), and to satisfy conditions which enable its dividends that are attributable to interest on municipal securities to be exempt from federal income tax in the hands of owners of such stock, subject to the possible application of the federal alternative minimum tax.

To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, the Acquiring Fund must, among other things, (a) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or non-U.S. currencies, other income derived with respect to its business of investing in such stock, securities or currencies, and net income derived from interests in qualified publicly traded partnerships, as defined in the Code; (b) diversify its holdings so that, at the end of each quarter of each taxable year, (i) at least 50% of the value of the Acquiring Fund's assets is represented by cash and cash items (including receivables), U.S. Government securities, the securities of other regulated investment companies and other securities, with such other securities of any one issuer limited for the purposes of this calculation to an amount not greater than 5% of the value of the Acquiring Fund's total assets and not greater than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its total assets is invested in the securities (other than U.S. Government securities or the securities of other regulated investment companies) of a single issuer, or two or more issuers that the Acquiring Fund controls and are engaged in the same, similar or related trades or businesses, or the securities of one or more qualified publicly traded partnerships; and (c) distribute each year an amount equal to or greater than the sum of 90% of its investment company taxable income (as that term is defined in the Code, but without regard to the deduction for dividends paid) and 90% of its net tax-exempt interest.

If the Acquiring Fund failed to qualify as a regulated investment company in any taxable year, the Acquiring Fund would be taxed in the same manner as a regular corporation on its taxable income (even if such income were distributed to its shareholders) and distributions to shareholders would not be deductible by the Acquiring Fund in computing its taxable income. Additionally, all distributions out of earnings and profits (including distributions from net capital gain and net tax-exempt interest) would be taxed to shareholders as ordinary dividend income. Such distributions generally would be eligible (i) to be treated as qualified dividend income, as discussed below in the case of noncorporate shareholders and (ii) for the dividends received deduction under Section 243 of the Code (the Dividends Received Deduction) in the case of corporate shareholders.

The Acquiring Fund intends to continue to qualify to pay exempt-interest dividends, as defined in the Code, by satisfying the requirement that, at the close of each quarter of its taxable year, at least 50% of the value of its total assets consist of tax-exempt state and local bonds. Exempt-interest dividends are dividends or any part thereof (other than a capital gain dividend) paid by the Acquiring Fund which are attributable to interest on state and local bonds that pay interest exempt from regular federal income tax and are so designated by the Acquiring Fund. Exempt-interest dividends will be exempt from U.S. federal income tax, subject to the possible application of the federal alternative minimum tax.

As a regulated investment company, the Acquiring Fund generally will not be subject to U.S. federal income tax on its investment company taxable income and net capital gain (the excess of net long-term capital gain over net short-term capital loss), if any, that it distributes to shareholders. The Acquiring Fund may retain for investment its net capital gain. However, if the Acquiring Fund retains any net capital gain or any investment company taxable income, it will be subject to tax at regular corporate rates on the amount retained. If the Acquiring Fund retains any net capital gain, it may designate the retained amount as undistributed capital gains in a notice to its shareholders who, if subject to U.S. federal income tax on long-term capital gains, (i) will be required to include in income for U.S. federal income tax purposes, as long-term capital gain, their share of such undistributed amount, and (ii) will be entitled to credit their proportionate shares of the federal income tax paid by the Acquiring Fund on such undistributed amount against their U.S. federal income tax liabilities, if any, and to claim refunds to the extent the credit exceeds such liabilities. For U.S. federal income tax purposes, the basis of shares owned by a shareholder of the Acquiring Fund will be increased by an amount equal to the difference between the amount of undistributed capital gains included in the shareholder's gross income and the federal income tax deemed paid by the shareholder under clause (ii) of the preceding sentence. The Acquiring Fund intends to distribute to its shareholders, at least annually, substantially all of its investment company taxable income (determined without regard to the deduction for dividends paid) and the net capital gain not otherwise retained by the Acquiring Fund.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% federal excise tax. To prevent imposition of the excise tax, the Acquiring Fund must distribute during each calendar year an amount at least equal to the sum of (1) 98% of its ordinary taxable income (not taking into account any capital gains or losses) for the calendar year, (2) 98.2% of its capital gains in excess of its capital losses (adjusted for certain ordinary losses) for the one-year period ending October 31 of the calendar year, and (3) any ordinary taxable income and capital gains for previous years that were not distributed during those years and on which the Acquiring Fund paid no U.S. federal income tax. To prevent application of the excise tax, the Acquiring Fund intends to make distributions in accordance with the calendar year distribution requirement.

The Acquiring Fund may acquire municipal obligations and other debt securities that are market discount bonds. A market discount bond is a security acquired in the secondary market at a price below its redemption value (or its adjusted issue price if it is also an original issue discount bond). If the Acquiring Fund invests in a market discount bond, it will be required to treat any gain recognized on the disposition of such market discount bond as ordinary taxable income to the extent of the accrued market discount unless the Acquiring Fund elects to include the market discount in taxable income as it accrues.

If the Acquiring Fund invests in certain taxable pay-in-kind securities, zero coupon securities, deferred interest securities or, in general, any other securities with original issue discount (or with market discount if the Acquiring Fund elects to include market discount in income currently), the Acquiring Fund must accrue income on such investments for each taxable year, which generally will be prior to the receipt of the corresponding cash payments. However, the Acquiring Fund must distribute to shareholders, at least annually, all or substantially all of its investment company taxable income (determined without regard to the deduction for dividends paid) and net tax-exempt interest, including such accrued income, to continue to qualify as a regulated investment company and (with respect to taxable income) to avoid federal income and excise taxes. Therefore, the Acquiring Fund may have to dispose of its portfolio securities under disadvantageous circumstances to generate cash, or may have to leverage itself by borrowing the cash, to satisfy these distribution requirements.

A portion of the Acquiring Fund's expenditures that would otherwise be deductible may not be allowed as deductions by reason of the Acquiring Fund's investment in municipal securities (with such disallowed portion, in general, being the same percentage of the Acquiring Fund's aggregate expenses as the percentage of the Acquiring Fund's aggregate income (other than capital gain income) that constitutes exempt-interest income). A similar disallowance rule also applies to interest expense paid or incurred by the Acquiring Fund, if any. Such disallowed deductions, if any, will reduce the amount that the Acquiring Fund can designate as exempt-interest dividends by the disallowed amount. Income distributions by the Acquiring Fund in excess of the amount of the Acquiring Fund's exempt-interest dividends may be taxable as ordinary income.

Distributions to shareholders of net investment income received by the Acquiring Fund from taxable temporary investments, if any, and of net short-term capital gains realized by the Acquiring Fund, if any, will be taxable to its shareholders as ordinary income. Distributions by the Acquiring Fund of net capital gain (i.e., the excess of net long-term capital gain over net short-term capital loss), if any, are taxable as long-term capital gain, regardless of the length of time the shareholder has owned the shares with respect to which such distributions are made. The amount of taxable income allocable to the Acquiring Fund's shares will depend upon the amount of such income realized by the Acquiring Fund, but is not generally expected to be significant.

Distributions, if any, in excess of the Acquiring Fund's earnings and profits will first reduce the adjusted tax basis of a shareholder's shares and, after that basis has been reduced to zero, will constitute capital gain to the shareholder (assuming the shares are held as a capital asset). Qualified dividend income received by noncorporate shareholders is taxed for federal income tax purposes at rates equivalent to long-term capital gain tax rates, which reach a maximum of 15% (or 20% for certain high income individuals). Qualified dividend income generally includes dividends from domestic corporations and dividends from non-U.S. corporations that meet certain specified criteria. As long as the Acquiring Fund qualifies as a regulated investment company under the Code, it is not expected that any part of its distributions to shareholders from its investments will qualify for the Dividends Received Deduction available to corporate shareholders or as qualified dividend income in the case of noncorporate shareholders.

Distributions are treated the same for federal income tax purposes whether reinvested in additional shares of the Acquiring Fund or paid in cash.

The IRS currently requires that the Acquiring Fund designate distributions paid with respect to its common shares and its preferred shares as consisting of a portion of each type of income distributed by the Acquiring Fund. The portion of each type of income deemed received by the holders of each class of shares will be equal to the portion of the total Acquiring Fund dividends received by such class. Thus, the Acquiring Fund will designate dividends paid as exempt-interest dividends in a manner that allocates such dividends between the holders of the common shares and the preferred shares in proportion to the total dividends paid to each such class during or with respect to the taxable year, or otherwise as required by applicable law. Net capital gain dividends and ordinary income dividends will similarly be allocated between the two classes.

Earnings and profits are generally treated, for federal income tax purposes, as first being used to pay distributions on preferred shares, and then to the extent remaining, if any, to pay distributions on the common shares.

If the Acquiring Fund utilizes leverage through borrowings, or otherwise, asset coverage limitations imposed by the 1940 Act as well as additional restrictions that may be imposed by certain lenders on the payment of dividends or distributions potentially could limit or eliminate the Acquiring Fund's ability to make distributions on its common shares and/or preferred shares until the asset coverage is restored. These limitations could prevent the Acquiring Fund from distributing at least 90% of its investment company taxable income and tax-exempt interest as is required under the Code and therefore might jeopardize the Acquiring Fund's qualification as a regulated investment company and/or might subject the Acquiring Fund to a nondeductible 4% federal excise tax. Upon any failure to meet the asset coverage requirements imposed by the 1940 Act, the Acquiring Fund may, in its sole discretion and to the extent permitted under the 1940 Act, purchase or redeem preferred shares in order to maintain or restore the requisite asset coverage and avoid the adverse consequences to the Acquiring Fund and its shareholders of failing to meet the distribution requirements. There can be no assurance, however, that any such action would achieve these objectives. The Acquiring Fund endeavors to avoid restrictions on its ability to distribute dividends.

The Code provides that interest on indebtedness incurred or continued to purchase or carry the Acquiring Fund's shares to which exempt-interest dividends are allocated is not deductible. Under rules used by the IRS for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase or ownership of shares may be considered to have been made with borrowed funds even though such funds are not directly used for the purchase or ownership of such shares.

The interest on private activity bonds in most instances is not federally tax-exempt to a person who is a substantial user of a facility financed by such bonds or a related person of such substantial user. As a result, the Acquiring Fund may not be an appropriate investment for a shareholder who is considered either a substantial user or a related person within the meaning of the Code. In general, a substantial user of a facility includes a nonexempt person who regularly uses a part of such facility in his trade or business. Related persons are in general defined to include persons among whom there exists a relationship, either by family or business, which would result in a disallowance of losses in transactions among them under various provisions of the Code (or if they are members of the same controlled group of corporations under the Code), including a partnership and each of its partners (and certain members of their families), an S corporation and each of its shareholders (and certain members of their families) and various combinations of these and other relationships. The foregoing is not a complete description of all of the provisions of the Code covering the definitions of substantial user and related person.

Although dividends generally will be treated as distributed when paid, dividends declared in October, November or December, payable to shareholders of record on a specified date in one of those months and paid during the following January, will be treated as having been distributed by the Acquiring Fund (and received by the shareholders) on December 31 of the year declared.

Certain of the Acquiring Fund's investment practices are subject to special provisions of the Code that, among other things, may defer the use of certain deductions or losses of the Acquiring Fund, affect the holding period of securities held by the Acquiring Fund and alter the character of the gains or losses realized by the Acquiring Fund. These provisions may also require the Acquiring Fund to recognize income or gain without receiving cash with which to make distributions in the amounts necessary to satisfy the requirements for maintaining regulated investment company status and for avoiding federal income and excise taxes. The Acquiring Fund will monitor its transactions and may make certain tax elections in order to mitigate the effect of these rules and prevent disqualification of the Acquiring Fund as a regulated investment company.

The sale or exchange of shares of the Acquiring Fund normally will result in capital gain or loss to shareholders who hold their shares as capital assets. Generally, a shareholder's gain or loss will be long-term capital gain or loss if the shares have been held for more than one year even though the increase in value in such shares is attributable to tax-exempt interest income. The gain or loss on shares held for one year or less will generally be treated as short-term capital gain or loss. Present law taxes both long-term and short-term capital gains of corporations at the same rates applicable to ordinary income. For noncorporate taxpayers, however, long-term capital gains are currently taxed at a maximum federal income tax rate of 15% (or 20% for certain high income individuals), while short-term capital gains and other ordinary income are currently taxed at ordinary income rates. Any loss on the sale of shares that have been held for six months or less will be disallowed to the extent of any distribution of exempt-interest dividends received with respect to such shares, unless the shares are of a regulated investment company that declares exempt-interest dividends on a daily basis in an amount equal to at least 90% of its net tax-exempt interest and distributes such dividends on a monthly or more frequent basis. If a shareholder sells or otherwise disposes of shares before holding them for more than six months, any loss on the sale or disposition will be treated as a long-term capital loss to the extent of any net capital gain dividends received by the shareholder with respect to such shares. Any loss realized on a sale or exchange of shares of the Acquiring Fund will be disallowed to the extent those shares of the Acquiring Fund are replaced by other substantially identical shares of the Acquiring Fund or other substantially identical stock or securities (including through reinvestment of dividends) within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition of the original shares. In that event, the basis of the replacement stock or securities will be adjusted to reflect the disallowed loss.

Federal income tax law imposes an alternative minimum tax with respect to corporations, individuals, trusts and estates. Interest on certain private activity bonds is included as an item of tax preference in determining the amount of a taxpayer's alternative minimum taxable income. To the extent that the Acquiring Fund received income from municipal securities subject to the federal alternative minimum tax, a portion of the dividends paid by the Acquiring Fund, although otherwise exempt from U.S. federal income tax, would be taxable to its shareholders to the extent that their tax liability is determined under the federal alternative minimum tax. The Acquiring Fund will annually provide a report indicating the percentage of the Acquiring Fund's income attributable to municipal securities subject to the federal alternative minimum tax. In addition, for certain corporations, federal alternative minimum taxable income is increased by 75% of the difference between an alternative measure of income (adjusted current earnings) and the amount otherwise determined to be the alternative minimum taxable income. Interest on all municipal securities, and therefore a distribution by the Acquiring Fund that would otherwise be tax-exempt, is included in calculating a corporation's adjusted current earnings. Certain small corporations are not subject to the federal alternative minimum tax.

For taxable years beginning after December 31, 2012, certain noncorporate shareholders are subject to an additional 3.8% tax on some or all of their net investment income, which will include items of gross income that are attributable to interest, original issue discount and market discount (but not including tax-exempt interest), as well as net gain from the disposition of other property. This tax generally applies to the extent net investment income, when added to other modified adjusted gross income, exceeds \$200,000 for an unmarried individual, \$250,000 for a married taxpayer filing a joint return (or a surviving spouse), or \$125,000 for a married individual filing a separate return. Shareholders should consult their tax advisers regarding the applicability of this tax in respect of their shares.

Tax-exempt income, including exempt-interest dividends paid by the Acquiring Fund, is taken into account in calculating the amount of social security and railroad retirement benefits that may be subject to federal income tax.

The Acquiring Fund may be required to withhold U.S. federal income tax at a rate of 28% from all distributions (including exempt-interest dividends) and redemption proceeds payable to shareholders who fail to provide the Acquiring Fund with their correct taxpayer identification number or to make required certifications, or who have been notified by the IRS that they are subject to backup withholding. Corporate shareholders and certain other shareholders specified in the Code generally are exempt from such backup withholding. This withholding is not an additional tax. Any amounts withheld may be credited against the shareholder's federal income tax liability, provided the required information is furnished to the IRS.

The Code provides that every shareholder required to file a tax return must include for information purposes on such return the amount of tax-exempt interest received during the taxable year, including any exempt-interest dividends received from the Acquiring Fund.

#### **EXPERTS**

The financial statements of the Acquiring Fund and the Target Fund appearing in each Fund's Annual Report for the year ended October 31, 2012 are incorporated by reference herein. The financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in such reports thereon and incorporated herein by reference. Such financial statements are incorporated by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing. Ernst & Young LLP provides auditing services to the Acquiring Fund and the Target Funds. The principal business address of Ernst & Young LLP is 155 North Wacker Drive, Chicago, Illinois 60606.

#### **CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT**

#### **AND REDEMPTION AND PAYING AGENT**

The custodian of the assets of each Fund is State Street Bank and Trust Company, One Lincoln Street, Boston, Massachusetts 02111. The custodian performs custodial, fund accounting and portfolio accounting services. Each Fund's transfer, shareholder services and dividend paying agent is also State Street Bank and Trust Company, 250 Royall Street, Canton, Massachusetts 02021.

#### **ADDITIONAL INFORMATION**

A Registration Statement on Form N-14, including amendments thereto, relating to the common shares of the Acquiring Fund offered hereby, has been filed by the Acquiring Fund with the SEC. The Joint Proxy Statement/Prospectus and this SAI do not contain all of the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to the Acquiring Fund and the common shares offered hereby, reference is made to the Acquiring Fund's Registration Statement. Statements contained in the Joint Proxy Statement/Prospectus and this SAI as to the contents of any contract or other document referred to are not

necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. Copies of the Registration Statement may be inspected without charge at the SEC's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the SEC upon the payment of certain fees prescribed by the SEC.

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**APPENDIX A**

**RATINGS OF INVESTMENTS**

Standard & Poor's Ratings Services A brief description of the applicable Standard & Poor's Ratings Services LLC, a subsidiary of The McGraw-Hill Companies ( Standard & Poor's or S&P ), rating symbols and their meanings (as published by S&P) follows:

A Standard & Poor's issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The issue credit rating is not a recommendation to purchase, sell, or hold a financial obligation, inasmuch as it does not comment as to market price or suitability for a particular investor.

Issue credit ratings are based on current information furnished by the obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any credit rating and may, on occasion, rely on unaudited financial information. Credit ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Issue credit ratings can be either long-term or short-term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days including commercial paper.

Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. The result is a dual rating, in which the short-term rating addresses the put feature, in addition to the usual long-term rating. Medium-term notes are assigned long-term ratings.

**Long-Term Issue Credit Ratings**

Issue credit ratings are based in varying degrees, on the following considerations:

1. Likelihood of payment capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
2. Nature of and provisions of the obligation; and
3. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

The issue ratings definitions are expressed in terms of default risk. As such, they pertain to senior obligations of an entity. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation applies when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company

and holding company obligations.) Accordingly, in the case of junior debt, the rating may not conform exactly with the category definition.

#### AAA

An obligation rated AAA has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

#### AA

An obligation rated AA differs from the highest-rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

#### A

An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

#### BBB

An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

#### BB, B, CCC, CC, and C

Obligations rated BB, B, CCC, CC, and C are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and C the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

#### BB

An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

#### B

An obligation rated B is more vulnerable to nonpayment than obligations rated BB, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

#### CCC

An obligation rated CCC is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment

on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC

An obligation rated CC is currently highly vulnerable to nonpayment.

C

A Subordinated debt or preferred stock obligation rated C is CURRENTLY HIGHLY VULNERABLE to nonpayment. The C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action has been taken, but payments on this obligation are being continued. A C also will be assigned to a preferred stock issue in arrears on dividends or sinking fund payments, but that is currently paying.

D

An obligation rated D is in payment default. The D rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Plus (+) or minus (-). The ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

r

This symbol is attached to the ratings of instruments with significant noncredit risks. It highlights risks to principal or volatility of expected returns which are not addressed in the credit rating.

N.R.

This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular obligation as a matter of policy.

#### **Short-Term Issue Credit Ratings**

A-1

A short-term obligation rated A-1 is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

A-2

A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

A-3

A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

B

A short-term obligation rated B is regarded as having significant speculative characteristics. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

C

A short-term obligation rated C is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

D

A short-term obligation rated D is in payment default. The D rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Moody's Investors Service, Inc. A brief description of the applicable Moody's Investors Service, Inc. (Moody's) rating symbols and their meanings (as published by Moody's) follows:

**Municipal Bonds**

Aaa

Bonds that are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa

Bonds that are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than

the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present that make the long-term risks appear somewhat larger than in Aaa securities.

A

Bonds that are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present that suggest a susceptibility to impairment sometime in the future.

Baa

Bonds that are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba

Bonds that are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B

Bonds that are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa

Bonds that are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca

Bonds that are rated Ca represent obligations that are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C

Bonds that are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

#(hatchmark): Represents issues that are secured by escrowed funds held in cash, held in trust, invested and reinvested in direct, non-callable, non-prepayable United States government obligations

or non-callable, non-prepayable obligations unconditionally guaranteed by the U.S. Government, Resolution Funding Corporation debt obligations.

Con. (...): Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals that begin when facilities are completed, or (d) payments to which some other limiting condition attaches. The parenthetical rating denotes probable credit stature upon completion of construction or elimination of the basis of the condition.

(P): When applied to forward delivery bonds, indicates the rating is provisional pending delivery of the bonds. The rating may be revised prior to delivery if changes occur in the legal documents or the underlying credit quality of the bonds.

Note: Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

### **Short-Term Loans**

#### **MIG 1/VMIG 1**

This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.

#### **MIG 2/VMIG 2**

This designation denotes strong credit quality. Margins of protection are ample, although not as large as in the preceding group.

#### **MIG 3/VMIG 3**

This designation denotes acceptable credit quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well-established.

#### **SG**

This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

#### **Commercial Paper**

Issuers (or supporting institutions) rated Prime-1 have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will normally be evidenced by the following characteristics:

Leading market positions in well-established industries.

High rates of return on funds employed.

Conservative capitalization structures with moderate reliance on debt and ample asset protection.

Broad margins in earnings coverage of fixed financial charges and high internal cash generation.

Well-established access to a range of financial markets and assured sources of alternate liquidity.

Issuers (or supporting institutions) rated Prime-2 have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation than is the case for Prime-2 securities. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Issuers (or supporting institutions) rated Prime-3 have an acceptable ability for repayment of senior short-term debt obligations. The effect of industry characteristics and market composition may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and the requirement for relatively high financial leverage. Adequate alternate liquidity is maintained.

Issuers rated Not Prime do not fall within any of the Prime rating categories.

Fitch, Inc. A brief description of the applicable Fitch, Inc. ( Fitch ) ratings symbols and meanings (as published by Fitch) follows:

### **Long-Term Credit Ratings**

Investment Grade

AAA

Highest credit quality. AAA ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA

Very high credit quality. AA ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A

High credit quality. A ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

**BBB**

Good credit quality. BBB ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

**Speculative Grade**

**BB**

Speculative. BB ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

**B**

Highly speculative. B ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

**CCC, CC, C**

High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. A CC rating indicates that default of some kind appears probable. C ratings signal imminent default.

**DDD, DD, and D Default**

The ratings of obligations in this category are based on their prospects for achieving partial or full recovery in a reorganization or liquidation of the obligor. While expected recovery values are highly speculative and cannot be estimated with any precision, the following serve as general guidelines. DDD obligations have the highest potential for recovery, around 90%-100% of outstanding amounts and accrued interest. DD indicates potential recoveries in the range of 50%-90%, and D the lowest recovery potential, i.e., below 50%. Entities rated in this category have defaulted on some or all of their obligations. Entities rated DDD have the highest prospect for resumption of performance or continued operation with or without a formal reorganization process. Entities rated DD and D are generally undergoing a formal reorganization or liquidation process; those rated DD are likely to satisfy a higher portion of their outstanding obligations, while entities rated D have a poor prospect for repaying all obligations.

**Short-Term Credit Ratings**

A short-term rating has a time horizon of less than 12 months for most obligations, or up to three years for U.S. public finance securities, and thus places greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.



F1

Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added + to denote any exceptionally strong credit feature.

F2

Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

F3

Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

B

Speculative Minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions.

C

High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.

D

Default. Denotes actual or imminent payment default.

**Notes to Long-term and Short-term ratings:**

+ or - may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the AAA Long-term rating category, to categories below CCC, or to Short-term ratings other than F1.

NR indicates that Fitch Ratings does not rate the issuer or issue in question.

Withdrawn : A rating is withdrawn when Fitch Ratings deems the amount of information available to be inadequate for rating purposes, or when an obligation matures, is called, or refinanced.

Rating Watch: Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as Positive, indicating a potential upgrade, Negative, for a potential downgrade, or Evolving, if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

A Rating Outlook indicates the direction a rating is likely to move over a one to two year period. Outlooks may be positive, stable, or negative. A positive or negative Rating Outlook does not imply a rating change is inevitable. Similarly, ratings for which outlooks are stable could be downgraded before an outlook moves to positive or negative if circumstances warrant such an action. Occasionally, Fitch Ratings may be unable to identify the fundamental trend. In these cases, the Rating Outlook may be described as evolving.

## APPENDIX B

## TAXABLE EQUIVALENT YIELD TABLE

The taxable equivalent yield is the current yield you would need to earn on a taxable investment in order to equal a stated tax-free yield on a municipal investment. To assist you to more easily compare municipal investments like the Fund with taxable alternative investments, the table below presents the approximate taxable equivalent yields for individuals for a range of hypothetical tax-free yields assuming the stated marginal federal income tax rates for 2013 listed below. This table should not be considered a representation or guarantee of future results.

## TAXABLE EQUIVALENT OF TAX-FREE YIELDS\*

| Single-Return<br>Bracket | Joint-Return<br>Bracket | Federal<br>Tax<br>Rate | Federal Tax Rate |       |       |       |       |        |        |        |  |
|--------------------------|-------------------------|------------------------|------------------|-------|-------|-------|-------|--------|--------|--------|--|
|                          |                         |                        | 4.00%            | 4.50% | 5.00% | 5.50% | 6.00% | 6.50%  | 7.00%  | 7.50%  |  |
| 0-\$8,925                | 0-\$17,850              | 10.0%                  | 4.44%            | 5.00% | 5.56% | 6.11% | 6.67% | 7.22%  | 7.78%  | 8.33%  |  |
| \$8,925-\$36,250         | \$17,850-\$72,500       | 15.0%                  | 4.71%            | 5.29% | 5.88% | 6.47% | 7.06% | 7.65%  | 8.24%  | 8.82%  |  |
| \$36,250-\$87,850        | \$72,500-\$146,400      | 25.0%                  | 5.33%            | 6.00% | 6.67% | 7.33% | 8.00% | 8.67%  | 9.33%  | 10.00% |  |
| \$87,850-\$183,250       | \$146,400-\$223,050     | 28.0%                  | 5.56%            | 6.25% | 6.94% | 7.64% | 8.33% | 9.03%  | 9.72%  | 10.42% |  |
| \$183,250-\$398,350      | \$223,050-\$398,350     | 33.0%                  | 5.97%            | 6.72% | 7.46% | 8.21% | 8.96% | 9.70%  | 10.45% | 11.19% |  |
| \$398,350-\$400,000      | \$398,350-\$450,000     | 35.0%                  | 6.15%            | 6.92% | 7.69% | 8.46% | 9.23% | 10.00% | 10.77% | 11.54% |  |
| Over \$400,000           | Over \$450,000          | 39.6%                  | 6.62%            | 7.45% | 8.28% | 9.11% | 9.93% | 10.76% | 11.59% | 12.42% |  |

\* Please note that the table does not reflect (i) any federal limitations on the amounts of allowable itemized deductions, phase-outs of personal or dependent exemption credits or other allowable credits, (ii) any state or local taxes imposed, or (iii) any alternative minimum taxes or any taxes other than federal personal income taxes.