

NUVEEN INSURED CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND
Form PRE 14A
January 13, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Nuveen Insured California Dividend Advantage Municipal
Fund**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

IMPORTANT NOTICE TO PREFERRED SHAREHOLDERS OF
NUVEEN INSURED CALIFORNIA TAX-FREE ADVANTAGE MUNICIPAL FUND (NKX)
NUVEEN INSURED CALIFORNIA PREMIUM INCOME MUNICIPAL FUND, INC. (NPC)
NUVEEN INSURED CALIFORNIA PREMIUM INCOME MUNICIPAL FUND 2, INC. (NCL)
AND
NUVEEN INSURED CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND (NKL)
(EACH, A FUND AND COLLECTIVELY, THE FUNDS)

JANUARY , 2012

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

Q. Why am I receiving this Joint Proxy Statement?

A. You are receiving this Joint Proxy Statement as a holder of preferred shares of a Fund in connection with the annual shareholder meetings of the Funds. The following proposals will be considered:

the election of members of the Board of Directors or Board of Trustees, as applicable, for each Fund (the list of specific nominees is contained in the enclosed Joint Proxy Statement);

the reorganization of your Fund;

the elimination of the current fundamental investment policy and adoption of a new fundamental investment policy regarding each Fund's investment of at least 80% of its assets in securities suggested by its name; and

the elimination of the current fundamental investment policy and adoption of a new fundamental investment policy regarding each Fund's ability to make loans.

Proposals Regarding the Reorganizations

Q. What actions has each Fund's Board of Trustees or Board of Directors approved?

A. Each Fund's Board of Trustees or Board of Directors (the Board), as applicable, has approved a series of mergers of single-state municipal closed-end funds, including the reorganization of each of Nuveen Insured California Premium Income Municipal Fund, Inc. (Premium Income), Nuveen Insured California Premium Income Municipal Fund 2, Inc. (Premium Income 2) and Nuveen Insured

Edgar Filing: NUVEEN INSURED CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND - Form PRE 14A

California Dividend Advantage Municipal Fund (Dividend Advantage) (each, an Acquired Fund and collectively, the Acquired Funds) into Nuveen Insured California Tax-Free Advantage Municipal Fund (the Acquiring Fund) (each, a Reorganization and collectively, the Reorganizations).

Table of Contents

Q. Why has each Fund's Board recommended these proposals?

A. The Board has determined that the proposed Reorganizations would be in the best interests of each Fund. The Acquiring Fund and the Acquired Funds have similar investment objectives and policies, similar portfolio compositions and the same portfolio manager. In addition, the proposed Reorganizations are intended to result in:

Lower fees and operating expenses per common share (excluding costs of leverage) from greater economies of scale as the combined fund's size results in a lower effective management fee rate and allows fixed operating expenses to be spread over a larger asset base.

Improved secondary market trading for common shares as the combined fund's greater market liquidity may lead to narrower bid-ask spreads and smaller trade-to-trade price movements, and higher common share net earnings and enhanced total returns over time may lead to higher common share market prices relative to net asset value. In addition, Acquired Fund common shareholders may experience improved secondary market trading after the Reorganizations because the Acquiring Fund's objective of investing primarily in municipal securities exempt from the federal alternative minimum tax applicable to individuals (AMT) may appeal to a broader group of investors.

Increased flexibility in managing the structure and costs of leverage over time.

Q. What are the potential benefits of the Reorganizations to holders of VRDP Shares?

A. Holders of variable rate demand preferred shares (VRDP Shares or preferred shares) may benefit from the larger size of the combined fund due to the larger combined fund's ability to invest in a larger pool of securities. A holder of VRDP Shares of an Acquired Fund also may benefit from the Acquiring Fund's objective of investing primarily in municipal securities exempt from the federal AMT, depending on the VRDP holder's circumstances.

Q. Will the terms of the VRDP Shares to be received in the Reorganization be substantially similar to the terms of the VRDP Shares of each Acquired Fund currently outstanding?

A. Yes. Upon the closing of the Reorganizations, holders of VRDP Shares of an Acquired Fund will receive, in exchange for each VRDP Share held immediately prior to the Reorganization, one VRDP Share of a new series of the Acquiring Fund having substantially identical terms, as of the time of the closing of the Reorganizations, to the Acquired Fund's VRDP Share exchanged therefor, including:

the same short-term and long-term credit rating from one or more rating agencies;

the same liquidation preference and final mandatory redemption date;

the same terms with respect to the payment of an adjustable dividend rate set weekly by a remarketing agent;

the same right to give notice on any business day to tender the securities for remarketing in seven days;

Table of Contents

the same terms with respect to the mandatory tender for remarketing upon the occurrence of certain events; and

continuing to have the benefit of an unconditional demand feature pursuant to a purchase agreement provided by the same bank acting as liquidity provider immediately prior to the closing of the Reorganizations with respect to each outstanding series of Acquired Fund VRDP Shares (subject to the same provisions regarding replacement or termination as apply to each outstanding series of Acquired Fund VRDP Shares).

In addition, the Plan of Reorganization provides that each newly issued series of Acquiring Fund VRDP Shares shall have the same rating, as of the date of the closing, as the Acquired Fund VRDP Shares being exchanged therefor. The Reorganization will not result in any changes in the terms of the Acquiring Fund VRDP Shares currently outstanding. Following the Reorganizations, former Acquired Fund VRDP shareholders and Acquiring Fund VRDP shareholders will be VRDP shareholders of a larger fund with several series of VRDP Shares outstanding.

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

- A. The Funds have similar (but not identical) investment objectives, policies and risks, and are managed by the same portfolio manager. Each Fund invests primarily in municipal securities exempt from regular federal and California income tax and, with respect to the Acquiring Fund, from the federal AMT. Each Fund emphasizes investments in investment grade municipal securities. Each Fund is a leveraged closed-end management investment company, and currently engages in leverage through the issuance of preferred shares and through the use of inverse floaters.

Premium Income and Premium Income 2 are subject to certain investment restrictions that are not applicable to the Acquiring Fund, which are discussed in the Joint Proxy Statement.

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

- A. Generally, shareholders of each Acquired Fund will be asked to vote on an Agreement and Plan of Reorganization with common shareholders and preferred shareholders (i.e., holders of VRDP Shares) voting as a single class and preferred shareholders voting separately. Shareholders of the Acquiring Fund will be asked to vote on the issuance of common shares in connection with the Reorganizations, with common and preferred shareholders voting as a single class and common shares voting separately, and preferred shareholders of the Acquiring Fund will be asked to vote on the Agreement and Plan of Reorganization.

Q. Will shareholders of the Acquired Funds receive new shares in exchange for their current shares?

- A. Yes. Upon the closing of the Reorganizations, each Acquired 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 Acquired Fund. Each Acquired Fund will then be liquidated, dissolved and terminated in accordance with its declaration of trust or articles of incorporation, as applicable.

Table of Contents

Acquired Fund shareholders will become shareholders of the Acquiring Fund. Holders of VRDP Shares of each Acquired Fund will receive on a one-for-one basis newly issued VRDP Shares of the Acquiring Fund, in exchange for VRDP Shares of the Acquired Fund held immediately prior to the Reorganization. Holders of common shares 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 Acquired Fund held immediately prior to the Reorganization (including for this purpose fractional Acquiring Fund common shares to which shareholders would be entitled).

Current shareholders of the Acquiring Fund will remain shareholders of the Acquiring Fund.

Q. Do the Reorganizations constitute a taxable event for the Acquired Fund shareholders?

- A.** No. Each 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 a Reorganization, except that gain or loss may be recognized by preferred shareholders who exercise dissenters' rights of appraisal under Minnesota law. To the extent that portfolio securities are sold in connection with the Reorganizations, an Acquired Fund may realize capital gains or losses. Gains from such sales will be taxable to Acquired Fund preferred shareholders to the extent such amounts are required to be allocated to distributions received by Acquired Fund preferred shareholders. However, it is not currently expected that any significant portfolio sales will occur in connection with the Reorganizations (less than 12% of the assets of each Acquired Fund). Increased portfolio turnover also may result from the New Fundamental 80% Policy described below, if approved.

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

- A.** The closing of the Reorganizations is contingent upon certain conditions being satisfied or waived. Principally, shareholders of each Acquired Fund, voting separately, must approve the Reorganization of their Fund into the Acquiring Fund. The Acquiring Fund also must obtain the shareholder approvals described in this Joint Proxy Statement with respect to the Reorganizations in order for the Reorganizations to occur. Because the closing of the Reorganizations is contingent on all of the Acquired Funds and the Acquiring Fund obtaining the requisite shareholder approvals and satisfying their other closing conditions, it is possible that your Fund's Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions, if one or more of the other Funds do not obtain their requisite shareholder approvals or satisfy their 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 the Fund, including conducting additional solicitations with respect to the proposals or continuing to operate the Funds as stand-alone funds.

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

- A.** No. The Reorganizations are expected to result in cost savings for each Fund (excluding the costs of leverage). The costs of the Reorganizations (whether or not consummated) will be allocated between the Funds pro rata based on the relative benefits of the Reorganizations comprised of forecasted cost savings and distribution increases, if any, to each Fund during the first year following the Reorganizations and paid out of such Fund's net assets. Common shareholders will indirectly bear the costs of the Reorganizations. The costs of the

Table of Contents

Reorganizations are estimated to be \$160,000 for the Acquiring Fund, \$365,000 for Premium Income, \$290,000 for Premium Income 2, and \$20,000 for Dividend Advantage. Preferred shareholders are not expected to bear any costs of the Reorganizations.

Q. What is the timetable for the Reorganizations?

A. If the shareholder voting and other conditions to closing are satisfied (or waived), the Reorganizations are expected to take effect on or about April 6, 2012 or as soon as practicable thereafter.

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

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

Proposal Regarding New Fundamental 80% Policy

Q. What am I being asked to approve?

A. You are being asked to approve a change to each Fund's fundamental policy requiring it to invest at least 80% of its assets in insured municipal securities. Under the new fundamental policy, each Fund will no longer be required to invest in insured municipal securities, and instead will invest at least 80% of its assets in municipal securities (the New Fundamental 80% Policy) and, as a non-fundamental policy, at least 80% of its assets in investment grade quality municipal securities. It is not anticipated, however, that the new non-fundamental policy will be implemented by a Fund unless its shareholders approve the New Fundamental 80% Policy. The Acquiring Fund will continue its non-fundamental policy to invest, under normal circumstances, at least 80% of its assets in municipal securities and other related investments that pay interest exempt from the federal AMT. Each Fund's investment objectives will remain unchanged.

Q. Why has the Board recommended the elimination of the current fundamental 80% policy and the adoption of the New Fundamental 80% Policy?

A. As a result of changes in municipal bond insurance described below, Nuveen Fund Advisors, Inc. (the Adviser) and the Board believe it is in the best interests of each Fund to modify its current fundamental 80% policy, to provide the Fund with additional flexibility to achieve its objectives. With respect to the Acquiring Fund, if these changes are approved, the Board will change the name of the Acquiring Fund to Nuveen California AMT-Free Municipal Income Fund and if the proposal is approved by an Acquired Fund but the Reorganizations are not approved, the Board will remove the word Insured from the name of the Acquired Funds.

Q. Was there a particular catalyst or portfolio concern prompting this proposal?

A. In the aftermath of the 2008 financial crisis and the downgrade of most bond insurers, bond insurance has lost much of its economic value, and most insured municipal bonds now trade based upon their underlying creditworthiness. The resulting steep decline in the use of bond insurance has led to lack of new issue supply and a limited universe of potential investments for the Funds. The New Fundamental 80% Policy would potentially enhance each Fund's ability to achieve its investment objectives.

Table of Contents

Q. What are the potential benefits of the New Fundamental 80% Policy to shareholders of the Funds?

- A. The proposed New Fundamental 80% Policy is intended to give each Fund additional investment flexibility and improve its ability to pursue investment opportunities. If approved, each Fund would no longer be required to invest primarily in insured obligations, which would allow each Fund to invest in a broader universe of municipal obligations; however, each Fund would continue to invest at least 80% of its assets in municipal securities and other related investments that pay interest exempt from regular federal and California income taxes and, with respect to the Acquiring Fund as a non-fundamental policy, from the federal AMT. The Adviser believes the proposed New Fundamental 80% Policy is in the best interests of each Fund and is consistent with each Fund's investment objectives.

Q. What actions are required in order to implement the New Fundamental 80% Policy?

- A. In order to implement the New Fundamental 80% Policy and obtain the potential benefits described above, shareholders are being asked to approve the elimination of an existing fundamental policy and the adoption of the New Fundamental 80% Policy. If approved, the New Fundamental 80% Policy will be put into effect for each Fund promptly after the annual meeting. However, the Board does not intend to remove the word "insured" from the names of the Acquired Funds pending the consummation of the Reorganizations. As required by the terms of the VRDP Shares, each Fund will need to obtain certain consents from rating agencies and the liquidity provider with respect to its VRDP Shares in order to implement the New Fundamental 80% Policy if approved.

Q. What happens if shareholders of my Fund do not approve the elimination of the fundamental investment policy and/or do not approve the New Fundamental 80% Policy?

- A. A Fund will not be able to implement the New Fundamental 80% Policy as discussed above unless its shareholders approve both proposals. The Fund would likely incur further expenses to solicit additional shareholder participation and may experience potential disruptions to its investment operations. Each Fund's Board urges you to vote without delay in order to avoid the potential for higher costs and/or disruptions to portfolio operations.

To the extent an Acquired Fund's shareholders do not approve its New Fundamental 80% Policy but the Reorganizations are approved, it is possible the Acquired Fund's shareholders will be subject to the New Fundamental 80% Policy following the completion of the Reorganizations (as shareholders of the Acquiring Fund) even though they did not vote to approve the New Fundamental 80% Policy. Conversely, if the Acquiring Fund's shareholders do not approve the New Fundamental 80% Policy but the Reorganizations are approved, it is possible that shareholders of an Acquired Fund that approved the New Fundamental 80% Policy for its Fund will not benefit from the New Fundamental 80% Policy following the completion of the Reorganizations.

Proposal Regarding New Fundamental Loan Policy

Q. What are the potential benefits to shareholders of the Funds of the new fundamental policy regarding loans?

- A. Investment policies currently vary across otherwise-similar Nuveen municipal closed-end funds, reflecting evolving markets and guidelines as the different funds were launched over the

Table of Contents

past 20 years. As part of a continuing broader “best practices” initiative, which began approximately three years ago, all Nuveen municipal closed-end funds, including the Funds, are seeking to adopt a uniform set of investment policies that reflect municipal market and regulatory developments over time. The proposed new fundamental investment policy would permit each Fund to make loans to the extent permitted by the securities laws (the “New Fundamental Loan Policy”). Among other things, this change is intended to provide each Fund the flexibility to make loans in circumstances where a municipal issuer is in distress, if the investment adviser believes that doing so would both:

facilitate a timely workout of the issuer’s situation in a manner which benefits that Fund; and

be the best choice for reducing the likelihood or severity of loss on the Fund’s investment.

Conforming and updating these investment policies is intended to benefit common shareholders by increasing portfolio manager efficiency and flexibility to take advantage of a wide range of appropriate opportunities in the municipal bond markets in pursuit of the Fund’s investment objectives.

The potential benefits to VRDP shareholders are increased flexibility in diversifying portfolio risks and optimizing returns on current investments in order to pursue the preservation of, and possible growth of, capital which, if successful, will help to sustain and build net asset value and therefore, asset coverage levels for VRDP Shares.

Q. What actions are required in order to implement the New Fundamental Loan Policy?

A. In order to implement the New Fundamental Loan Policy and obtain the potential benefits described above, shareholders are being asked to approve the elimination of an existing fundamental policy and the implementation of a new replacement fundamental policy. If approved, the New Fundamental Loan Policy will be put into effect for each Fund promptly after the annual meetings. As required by the terms of the VRDP Shares, each Fund will need to obtain certain consents from rating agencies and the liquidity provider with respect to its VRDP Shares in order to implement the New Fundamental Loan Policy if approved.

Q. What happens if shareholders do not approve the elimination of the fundamental investment policy and/or do not approve the New Fundamental Loan Policy?

A. A Fund will not be able to implement the New Fundamental Loan Policy as discussed above unless its shareholders approve both proposals. The Fund would likely incur further expenses to solicit additional shareholder participation and may experience potential disruptions to its investment operations. Each Fund’s Board urges you to vote without delay in order to avoid the potential for higher costs and/or disruptions to portfolio operations.

To the extent an Acquired Fund’s shareholders do not approve its New Fundamental Loan Policy but the Reorganizations are approved, it is possible the Acquired Fund’s shareholders will be subject to the New Fundamental Loan Policy following the completion of the Reorganizations (as shareholders of the Acquiring Fund) even though they did not vote to approve the New Fundamental Loan Policy. Conversely, if the Acquiring Fund’s shareholders do not approve the New Fundamental Loan Policy but the Reorganizations are approved, it is possible that shareholders of an Acquired Fund that approved the New Fundamental Loan Policy with respect to its Fund will not benefit from the New Fundamental Loan Policy following completion of the Reorganizations.

Table of Contents

Q. Was there a particular catalyst or portfolio concern prompting this proposal?

- A.** This proposal is part of a broader policy initiative undertaken by Nuveen for the past several years. There are currently no identified credit situations within the complex where this option is intended or targeted. As stated in the Joint Proxy Statement, this policy change proposal reflects the broader intent to provide Nuveen's municipal closed-end funds, including the Funds, the same portfolio management flexibility already available to other funds with similar investment objectives within the Nuveen complex.

Q. Does this proposal reflect a growing concern over the state of municipal issuers?

- A.** Nuveen's portfolio management and research team is actively engaged in monitoring both macro issues impacting the municipal bond market and individual credit holdings held by the various funds. The team regularly comments on the strength of the municipal bond market as well as providing in-depth research articles.

Providing a Fund with the option of making loans to help facilitate a timely workout of a distressed issuer's situation merely provides the Fund with an additional tool to help preserve shareholder value and, importantly, should not be viewed as a commentary on the state of the municipal bond market.

Q. Have the Nuveen municipal closed-end funds participated in loans to municipal issuers in the past?

- A.** Though such a loan situation in the municipal market is rare, it represents a more common workout practice in the corporate bond market. The most recent situation in which a Nuveen fund with the flexibility to do so made a loan to an issuer facing a credit workout situation occurred approximately eight years ago. Since that time, a limited number of funds having a policy permitting the making of loans have considered doing so in particular workout situations, but have taken other actions in pursuit of maximizing shareholder value.

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) 963-5818 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.

Table of Contents

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.

Table of Contents

JANUARY , 2012

NUVEEN INSURED CALIFORNIA TAX-FREE ADVANTAGE MUNICIPAL FUND (NKX) NUVEEN INSURED CALIFORNIA PREMIUM INCOME MUNICIPAL FUND, INC. (NPC) NUVEEN INSURED CALIFORNIA PREMIUM INCOME MUNICIPAL FUND 2, INC. (NCL) AND

NUVEEN INSURED CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND (NKL) (EACH, A FUND AND COLLECTIVELY, THE FUNDS)

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON FEBRUARY 24, 2012

To the Shareholders:

Notice is hereby given that the Annual Meeting of Shareholders (the Annual Meeting) of Nuveen Insured California Tax-Free Advantage Municipal Fund (Tax-Free Advantage or Acquiring Fund), and Nuveen Insured California Premium Income Municipal Fund, Inc. (Premium Income), Nuveen Insured California Premium Income Municipal Fund 2, Inc. (Premium Income 2), and Nuveen Insured California Dividend Advantage Municipal Fund (Dividend Advantage) (each, an Acquired Fund and collectively, the Acquired Funds), will be held in the offices of Nuveen Investments, Inc. (Nuveen or Nuveen Investments), 333 West Wacker Drive, Chicago, Illinois 60606, on Friday, February 24, 2012, at 2:00 p.m., Central time, for the following purposes:

1. Election of Board Members.

- (a) For shareholders of each of Tax-Free Advantage and Dividend Advantage, to elect five (5) members of the Board of Directors as follows:
 - (i) Three (3) Board members to be elected by the holders of common shares and preferred shares voting as a single class. Board Members Amboian, Kundert and Toth are nominees for election by all shareholders.
 - (ii) Two (2) Board members to be elected by the holders of preferred shares only, voting separately as a single class. Board Members Hunter and Schneider are nominees for election by holders of preferred shares.
- (b) For shareholders of each of Premium Income and Premium Income 2, to elect ten (10) Board members as follows:
 - (i) Eight (8) Board members are to be elected by holders of common shares and preferred shares, voting together as a single class. Board members Amboian, Bremner, Evans, Kundert, Stockdale, Stone, Stringer and Toth are nominees for election by all shareholders.
 - (ii) Two (2) Board members are to be elected by holders of preferred shares, all series voting together as a single class. Board members Hunter and Schneider are nominees for election by holders of preferred shares.

Table of Contents

2. Agreement and Plan of Reorganization. The shareholders of each Acquired Fund voting as set forth below, for an Agreement and Plan of Reorganization pursuant to which each Acquired Fund would (i) transfer substantially all of its assets to the Acquiring Fund in exchange solely for common shares and preferred shares of the Acquiring Fund, and the Acquiring Fund's assumption of substantially all of the liabilities of the Acquired Fund, (ii) distribute such shares of the Acquiring Fund to the common shareholders and preferred shareholders of the Acquired Fund (with cash being issued in lieu of fractional common shares), and (iii) liquidate, dissolve and terminate in accordance with the Acquired Fund's declaration of trust or articles of incorporation, as applicable.
- (a)(i) For the shareholders of each Acquired Fund, the common and preferred shareholders voting as a single class, to approve the Agreement and Plan of Reorganization.
- (a)(ii) For the shareholders of each Fund, the preferred shareholders voting separately as a single class, to approve the Agreement and Plan of Reorganization.
3. Approval of Issuance of Common Shares by the Acquiring Fund.

Shareholders of Tax-Free Advantage:

- (a)(i) The common and preferred shareholders voting as a single class to approve the issuance of additional common shares in connection with each Reorganization pursuant to the Agreement and Plan of Reorganization.
- (a)(ii) The common shareholders voting as a single class to approve the issuance of additional common shares in connection with each Reorganization pursuant to the Agreement and Plan of Reorganization.
4. Updated 80% Policy.
- (a)(i) For shareholders of each Fund, the common and preferred shares voting as a single class, to approve the elimination of the existing fundamental investment policy related to the Fund's investment of at least 80% of its assets in insured municipal securities.
- (a)(ii) For shareholders of each Fund, the preferred shares voting separately as a single class, to approve the elimination of the existing fundamental investment policy related to the Fund's investment of at least 80% of its assets in insured municipal securities.
- (b)(i) For shareholders of each Fund, the common and preferred shares voting as a single class, to approve a new fundamental investment policy related to the Fund's investment of at least 80% of its assets in municipal securities.
- (b)(ii) For shareholders of each Fund, the preferred shares voting separately as a single class, to approve a new fundamental investment policy related to the Fund's investment of at least 80% of its assets in municipal securities.

Table of Contents

5. Updated Loan Policy.

- (a)(i) For shareholders of each Fund, the common and preferred shares voting as a single class, to approve the elimination of the Fund's existing fundamental investment policy related to the Fund's ability to make loans.
- (a)(ii) For shareholders of each Fund, the preferred shares voting as a single class, to approve the elimination of the Fund's existing fundamental investment policy related to the Fund's ability to make loans.
- (b)(i) For shareholders of each Fund, the common and preferred shares voting as a single class, to approve a new fundamental investment policy related to the Fund's ability to make loans.
- (b)(ii) For shareholders of each Fund, the preferred shares voting as a single class, to approve a new fundamental investment policy related to the Fund's ability to make loans.

6. With respect to each Fund, to transact such other business as may properly come before the Annual Meeting.

Together with this notice, each Fund is delivering to holders of its preferred shares a Joint Proxy Statement and to holders of its common shares a separate proxy statement/prospectus with respect to the matters outlined above. Only shareholders of record as of the close of business on December 28, 2011 are entitled to notice of and to vote at the Annual Meeting or adjournments or postponements thereof.

As described in the accompanying Joint Proxy Statement under the caption "Proposal No. 2 Information about the Reorganizations Dissenting Shareholders Rights of Appraisal, preferred shareholders of Premium Income and Premium Income 2 who object to the proposed reorganization of their Fund are entitled to demand payment of the fair value of their preferred shares under procedures set forth in the Minnesota Business Corporation Act. The relevant sections of that Act are reproduced in Appendix E to this Joint Proxy Statement.

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

Table of Contents

NUVEEN FUNDS

333 WEST WACKER DRIVE

CHICAGO, ILLINOIS 60606

(800) 257-8787

JOINT PROXY STATEMENT

(PREFERRED SHAREHOLDERS)

NUVEEN INSURED CALIFORNIA TAX-FREE ADVANTAGE MUNICIPAL FUND (NKX)

NUVEEN INSURED CALIFORNIA PREMIUM INCOME MUNICIPAL FUND, INC. (NPC)

NUVEEN INSURED CALIFORNIA PREMIUM INCOME MUNICIPAL FUND 2, INC. (NCL)

AND

NUVEEN INSURED CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND (NKL)

(EACH, A FUND AND COLLECTIVELY, THE FUNDS)

JANUARY , 2012

This Joint Proxy Statement is being furnished to the preferred shareholders of Nuveen Insured California Tax-Free Advantage Municipal Fund (Tax-Free Advantage or Acquiring Fund), and Nuveen Insured California Premium Income Municipal Fund, Inc. (Premium Income), Nuveen Insured California Premium Income Municipal Fund 2, Inc. (Premium Income 2), and Nuveen Insured California Dividend Advantage Municipal Fund (Dividend Advantage) (each, an Acquired Fund and collectively, the Acquired Funds), each a closed-end management investment company, in connection with the solicitation of proxies by each Fund s Board of Trustees or Board of Directors (each, a Board and each Trustee or Director 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 Friday, February 24, 2012, at 2:00 p.m., Central time, and at any and all adjournments or postponements thereof (each, an Annual Meeting and collectively, the Annual Meetings) to consider the proposals listed below and discussed in greater detail elsewhere in this Joint Proxy Statement. Tax-Free Advantage and Dividend Advantage are each organized as a Massachusetts business trust. Premium Income and Premium Income 2 are each organized as a Minnesota corporation. The enclosed proxy and this Joint Proxy Statement are first being sent to preferred shareholders of the Funds on or about January , 2012. Shareholders of record of the Funds as of the close of business on December 28, 2011 are entitled to notice of, and to vote at, the Annual Meeting and any and all adjournments or postponements thereof.

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

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.

Table of Contents

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

The proposals of each Fund for which the votes of the holders of the Fund's Variable Rate Demand Preferred Shares (VRDP Shares or preferred shares) are being solicited are set forth below.

For Premium Income,

- 1(b)(i) the common and preferred shareholders voting as a single class, to elect eight (8) Board members,
- 1(b)(ii) the preferred shareholders voting separately as a single class, to elect two (2) Board members,
- 2(a)(i) the common and preferred shareholders voting as a single class, to approve the Agreement and Plan of Reorganization,
- 2(a)(ii) the preferred shareholders voting separately as a single class, to approve the Agreement and Plan of Reorganization,
- 4(a)(i) the common and preferred shareholders voting as a single class, to approve the elimination of the existing fundamental investment policy related to Premium Income's investment of at least 80% of its assets in insured municipal securities,
- 4(a)(ii) the preferred shareholders voting separately as a single class, to approve the elimination of the existing fundamental investment policy related to Premium Income's investment of at least 80% of its assets in insured municipal securities,
- 4(b)(i) the common and preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Premium Income's investment of at least 80% of its assets in municipal securities,
- 4(b)(ii) the preferred shareholders voting separately as a single class, to approve a new fundamental investment policy related to Premium Income's investment of at least 80% of its assets in municipal securities,
- 5(a)(i) the common and preferred shareholders voting as a single class, to approve the elimination of Premium Income's existing fundamental investment policy related to its ability to make loans,
- 5(a)(ii) the preferred shareholders voting as a single class, to approve the elimination of Premium Income's existing fundamental investment policy related to its ability to make loans,
- 5(b)(i) the common and preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Premium Income's ability to make loans, and
- 5(b)(ii) the preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Premium Income's ability to make loans.

For Premium Income 2,

- 1(b)(i) the common and preferred shareholders voting as a single class, to elect eight (8) Board members,
- 1(b)(ii) the preferred shareholders voting separately as a single class, to elect two (2) Board members,

Table of Contents

- 2(a)(i) the common and preferred shareholders voting as a single class, to approve the Agreement and Plan of Reorganization,
- 2(a)(ii) the preferred shareholders voting separately as a single class, to approve the Agreement and Plan of Reorganization,
- 4(a)(i) the common and preferred shareholders voting as a single class, to approve the elimination of the existing fundamental investment policy related to Premium Income 2's investment of at least 80% of its assets in insured municipal securities,
- 4(a)(ii) the preferred shareholders voting separately as a single class, to approve the elimination of the existing fundamental investment policy related to Premium Income 2's investment of at least 80% of its assets in insured municipal securities,
- 4(b)(i) the common and preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Premium Income 2's investment of at least 80% of its assets in municipal securities,
- 4(b)(ii) the preferred shareholders voting separately as a single class, to approve a new fundamental investment policy related to Premium Income 2's investment of at least 80% of its assets in municipal securities,
- 5(a)(i) the common and preferred shareholders voting as a single class, to approve the elimination of Premium Income 2's existing fundamental investment policy related to its ability to make loans,
- 5(a)(ii) the preferred shareholders voting as a single class, to approve the elimination of Premium Income 2's existing fundamental investment policy related to its ability to make loans,
- 5(b)(i) the common and preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Premium Income 2's ability to make loans, and
- 5(b)(ii) the preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Premium Income 2's ability to make loans.

For Dividend Advantage,

- 1(a)(i) the common and preferred shareholders voting as a single class, to elect three (3) Board members,
- 1(a)(ii) the preferred shareholders voting separately as a single class, to elect two (2) Board members,
- 2(a)(i) the common and preferred shareholders voting as a single class, to approve the Agreement and Plan of Reorganization,
- 2(a)(ii) the preferred shareholders voting separately as a single class, to approve the Agreement and Plan of Reorganization,
- 4(a)(i) the common and preferred shareholders voting as a single class, to approve the elimination of the existing fundamental investment policy related to Dividend Advantage's investment of at least 80% of its assets in insured municipal securities,
- 4(a)(ii) the preferred shareholders voting separately as a single class, to approve the elimination of the existing fundamental investment policy related to Dividend Advantage's investment of at least 80% of its assets in insured municipal securities,

Table of Contents

- 4(b)(i) the common and preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Dividend Advantage's investment of at least 80% of its assets in municipal securities,
- 4(b)(ii) the preferred shareholders voting separately as a single class, to approve a new fundamental investment policy related to Dividend Advantage's investment of at least 80% of its assets in municipal securities,
- 5(a)(i) the common and preferred shareholders voting as a single class, to approve the elimination of Dividend Advantage's existing fundamental investment policy related to its ability to make loans,
- 5(a)(ii) the preferred shareholders voting as a single class, to approve the elimination of Dividend Advantage's existing fundamental investment policy related to its ability to make loans,
- 5(b)(i) the common and preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Dividend Advantage's ability to make loans, and
- 5(b)(ii) the preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Dividend Advantage's ability to make loans.

For Tax-Free Advantage,

- 1(a)(i) the common and preferred shareholders voting as a single class, to elect three (3) Board members,
- 1(a)(ii) the preferred shareholders voting separately as a single class, to elect two (2) Board members,
- 2(a)(ii) the preferred shareholders voting separately as a single class, to approve the Agreement and Plan of Reorganization,
- 3(a)(i) the common and preferred shareholders voting as a single class, to approve the issuance of additional common shares in connection with each reorganization pursuant to the Agreement and Plan of Reorganization,
- 4(a)(i) the common and preferred shareholders voting as a single class, to approve the elimination of the existing fundamental investment policy related to Tax-Free Advantage's investment of at least 80% of its assets in insured municipal securities,
- 4(a)(ii) the preferred shareholders voting separately as a single class, to approve the elimination of the existing fundamental investment policy related to Tax-Free Advantage's investment of at least 80% of its assets in insured municipal securities,
- 4(b)(i) the common and preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Tax-Free Advantage's investment of at least 80% of its assets in municipal securities,
- 4(b)(ii) the preferred shareholders voting separately as a single class, to approve a new fundamental investment policy related to Tax-Free Advantage's investment of at least 80% of its assets in municipal securities,
- 5(a)(i) the common and preferred shareholders voting as a single class, to approve the elimination of Tax-Free Advantage's existing fundamental investment policy related to its ability to make loans,

Table of Contents

- 5(a)(ii) the preferred shareholders voting as a single class, to approve the elimination of Tax-Free Advantage's existing fundamental investment policy related to its ability to make loans,
- 5(b)(i) the common and preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Tax-Free Advantage's ability to make loans, and
- 5(b)(ii) the preferred shareholders voting as a single class, to approve a new fundamental investment policy related to Tax-Free Advantage's ability to make loans.

Each Fund is separately soliciting the votes of its respective common shareholders on each of the foregoing proposals that require common shareholders to vote together with preferred shareholders as a single class through a separate proxy statement and not through this Joint Proxy Statement.

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 the 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 December 28, 2011 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 December 28, 2011, the shares of the Funds issued and outstanding were as follows:

Fund Ticker Symbol*	Common Shares	VRDP Shares
Tax-Free Advantage, NKX	5,887,263	355
Premium Income, NPC	6,446,401	427
Premium Income 2, NCL	12,667,023	740
Dividend Advantage, NKL	15,261,643	1,044

* The common shares of Premium Income and Premium Income 2 are listed on the New York Stock Exchange (NYSE). The common shares of Tax-Free Advantage and Dividend Advantage are listed on the NYSE Amex. The VRDP Shares of each Fund are not listed on any exchange.

The reorganizations seek to combine four Funds that have similar (but not identical) investment objectives, policies and risks to achieve certain economies of scale and other operational efficiencies for the Funds (each a Reorganization and collectively, the Reorganizations). The Agreement and Plan of Reorganization by and among each Acquired Fund and Acquiring Fund (the Agreement) provides for (i) the Acquiring Fund's acquisition of substantially all of the assets of each Acquired Fund in exchange for newly issued common shares of the Acquiring Fund, par value \$0.01 per share, and newly issued VRDP Shares of the Acquiring Fund, with a par value of \$0.01 per share and

Table of Contents

liquidation preference of \$100,000 per share, and the Acquiring Fund's assumption of substantially all of the liabilities of each Acquired Fund, and (ii) the distribution of the Acquiring Fund common shares and Acquiring Fund VRDP Shares received by each Acquired Fund to its common and preferred shareholders, as part of the liquidation, dissolution and termination of each Acquired Fund in accordance with its declaration of trust or articles of incorporation, as applicable. The aggregate net asset value of Acquiring Fund common shares received by each Acquired Fund in a Reorganization will equal the aggregate net asset value of Acquired Fund common shares held by shareholders of such Acquired Fund immediately prior to the Reorganizations. Prior to the closing of the Reorganizations, the net asset value of each Acquired 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 an Acquired Fund's shareholders and, in lieu of such fractional shares, an Acquired 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. VRDP shareholders of each Acquired Fund will receive the same number of Acquiring Fund VRDP Shares having substantially identical terms as the outstanding VRDP Shares of the Acquired Fund held by such preferred shareholders immediately prior to the Reorganization. Each new series of the Acquiring Fund VRDP Shares will have the same variable dividend rate terms, mandatory tender terms, liquidity provider purchase obligation and liquidation preference as the Acquired Fund VRDP Shares for which it will be exchanged. The optional tender for remarketing right of each new series of VRDP Shares of the Acquiring Fund will be substantially the same as the rights of the corresponding Acquired Fund VRDP Shares as of the closing of the Reorganization. The aggregate liquidation preference of the Acquiring Fund VRDP Shares received in each Reorganization will equal the aggregate liquidation preference of the corresponding Acquired Fund VRDP Shares held immediately prior to the Reorganization. The Acquiring Fund will continue to operate after the Reorganization as a registered closed-end investment company with the investment objectives and policies described in this Joint Proxy Statement, subject to the policy modifications under Proposals 4 and 5 for which approval is being sought at the Annual Meeting.

With respect to each Reorganization, the Reorganization is required to be approved by the affirmative vote of the holders of a majority of the outstanding shares of the Acquired Fund's common shares and preferred shares, voting as a single class, and by the affirmative vote of a majority of the Acquired Fund's outstanding preferred shares, voting separately as a single class. Each 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 as a separate class. 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 Reorganizations.

The closing of the Reorganizations is contingent upon certain conditions being satisfied or waived. Principally, shareholders of each Acquired Fund, voting separately, must approve the Reorganization of their Fund into the Acquiring Fund. The Acquiring Fund also must obtain the shareholder approvals described in this Joint Proxy Statement with respect to the Reorganizations in order for the Reorganizations to occur. Additionally, in order for the Reorganization to occur, each Fund must obtain certain consents and/or waivers from various third parties, including liquidity providers with respect to outstanding VRDP Shares. Because the closing of the Reorganizations is contingent on all of the Acquired Funds and the Acquiring Fund obtaining the requisite shareholder approvals and satisfying (or obtaining the waiver of) their other closing conditions, it is possible your Fund's 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

Table of Contents

obtained, the Boards of the Funds may take such actions as they deem in the best interest of the Funds, including conducting additional solicitations with respect to the proposals or continuing to operate the Funds as stand-alone funds.

To the extent shareholders of an Acquired Fund do not approve the proposals relating to the new fundamental investment policies but the Reorganizations are approved, it is possible the Acquired Fund's shareholders will be subject to the new fundamental investment policies following the completion of the Reorganizations (as shareholders of the Acquiring Fund) even though they did not vote to approve the new fundamental investment policies. Conversely, if the shareholders of the Acquiring Fund do not approve the new fundamental investment policies but the Reorganizations are approved, it is possible that shareholders of an Acquired Fund that approved the new investment policies with respect to its Fund will not benefit from the new fundamental investment policies following the completion of the Reorganizations.

This Joint Proxy Statement concisely sets forth the information preferred shareholders of the Funds should know before voting on the proposals and constitutes an offering of preferred shares of the Acquiring Fund only. Holders of preferred shares should read it carefully and retain it for future reference. The Funds are separately soliciting the votes of the holders of common shares with respect to the proposals through a separate proxy statement and not through this Joint Proxy Statement.

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

- (i) the audited financial statements and related independent registered public accounting firm's report for the Acquiring Fund contained in the Fund's Annual Report for the fiscal year ended February 28, 2011;
- (ii) the audited financial statements and related independent registered public accounting firm's report for each Acquired Fund contained in the Fund's Annual Report for the fiscal year ended February 28, 2011;
- (iii) the unaudited financial statements for the Acquiring Fund contained in the Fund's Semi-Annual Report for the fiscal period ended August 31, 2011; and
- (iv) the unaudited financial statements for each Acquired Fund contained in the Fund's Semi-Annual Report for the fiscal period ended August 31, 2011.

No other parts of the Funds' Annual or Semi-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. In addition, the Acquiring Fund will furnish, without charge, a copy of its most recent Annual 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 may be inspected without charge and copied (for a duplication fee at prescribed rates) at the SEC's public reference room

Table of Contents

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, 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 and Dividend Advantage are listed on the NYSE Amex, and the common shares of Premium Income and Premium Income 2 are listed on the NYSE. The VRDP Shares of each Fund are not listed on any exchange. Reports, proxy statements and other information concerning the Funds can be inspected at the offices of the NYSE and NYSE Amex, 11 Wall Street, New York, New York 10005.

The VRDP Shares have not been registered under the Securities Act of 1933, as amended (the Securities Act), or any state securities laws, and unless so registered, may not be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the VRDP Shares to be issued in the Reorganizations are being offered and sold only to holders of VRDP Shares of the Acquired Funds that are qualified institutional buyers (as defined in Rule 144A under the Securities Act) in accordance with the exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act and are subject to restrictions on transfer. See the Confidential Information Memorandum (the Memorandum) attached as Appendix F to this Joint Proxy Statement.

No person has been authorized to give any information or make any representation not contained in this Joint Proxy Statement and, if so given or made, such information or representation must not be relied upon as having been authorized.

Table of Contents

JOINT PROXY STATEMENT

JANUARY , 2012

NUVEEN INSURED CALIFORNIA TAX-FREE ADVANTAGE MUNICIPAL FUND (NKX)

NUVEEN INSURED CALIFORNIA PREMIUM INCOME MUNICIPAL FUND, INC. (NPC)

NUVEEN INSURED CALIFORNIA PREMIUM INCOME MUNICIPAL FUND 2, INC. (NCL)

AND

NUVEEN INSURED CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND (NKL)

TABLE OF CONTENTS

	Page
<u>PROPOSAL NO. 1 THE ELECTION OF BOARD MEMBERS (SHAREHOLDERS OF EACH FUND)</u>	1
<u>Compensation</u>	9
<u>Board Leadership Structure and Risk Oversight</u>	12
<u>PROPOSAL NO. 2 REORGANIZATION OF EACH ACQUIRED FUND INTO THE ACQUIRING FUND (SHAREHOLDERS OF EACH ACQUIRED FUND; PREFERRED SHAREHOLDERS OF ACQUIRING FUND)</u>	27
<u>A. SYNOPSIS</u>	27
<u>Background and Reasons for the Reorganizations</u>	27
<u>Material Federal Income Tax Consequences of the Reorganizations</u>	27
<u>Comparison of the Acquiring Fund and Each Acquired Fund</u>	28
<u>Comparative Expense Information</u>	34
<u>Comparative Performance Information</u>	35
<u>B. RISK FACTORS</u>	35
<u>C. INFORMATION ABOUT THE REORGANIZATIONS</u>	35
<u>General</u>	35
<u>Terms of the Reorganizations</u>	36
<u>Reasons for the Reorganizations</u>	37
<u>Expenses Associated with the Reorganizations</u>	40
<u>Dissenting Shareholders Rights of Appraisal</u>	41
<u>Material Federal Income Tax Consequences of the Reorganizations</u>	44
<u>Votes Required</u>	46
<u>Description of Common Shares Issued by the Acquiring Fund; Comparison to Acquired Funds</u>	47
<u>Description of VRDP Shares</u>	48
<u>Comparison of Massachusetts Business Trusts and Minnesota Corporations</u>	50
<u>D. ADDITIONAL INFORMATION ABOUT THE INVESTMENT POLICIES</u>	54
<u>Comparison of the Investment Objectives and Policies of the Acquiring Fund and the Acquired Funds</u>	54
<u>PROPOSAL NO. 3 APPROVAL OF ISSUANCE OF ADDITIONAL COMMON SHARES OF ACQUIRING FUND (ACQUIRING FUND SHAREHOLDERS ONLY)</u>	64

Table of Contents

TABLE OF CONTENTS

(continued)

	Page
<u>ADDITIONAL INFORMATION ABOUT THE FUNDS</u>	65
<u>Certain Provisions in the Acquiring Fund's Declaration of Trust and By-Laws</u>	65
<u>Repurchase of Common Shares; Conversion to Open-End Fund</u>	67
<u>Custodian, Transfer Agent, Dividend Disbursing Agent, Redemption Agent and Remarketing Agents</u>	68
<u>Federal Income Tax Matters Associated with Investment in the Funds</u>	68
<u>Net Asset Value</u>	71
<u>Legal Proceedings</u>	71
<u>PROPOSAL NO. 4 APPROVAL OF THE ELIMINATION OF FUNDAMENTAL INVESTMENT POLICIES AND APPROVAL OF NEW FUNDAMENTAL POLICIES FOR EACH FUND RELATING TO INVESTMENTS IN INSURED MUNICIPAL SECURITIES (SHAREHOLDERS OF EACH FUND)</u>	73
<u>Board Recommendation</u>	75
<u>PROPOSAL NO. 5 ELIMINATION OF FUNDAMENTAL POLICY AND APPROVAL OF NEW FUNDAMENTAL POLICY RELATING TO EACH FUND'S ABILITY TO MAKE LOANS (SHAREHOLDERS OF EACH FUND)</u>	75
<u>Board Recommendation</u>	77
<u>GENERAL INFORMATION</u>	78
<u>Outstanding Shares of the Acquiring Fund and the Acquired Funds</u>	78
<u>Shareholders of the Acquiring Fund and the Acquired Funds</u>	78
<u>Audit Committee Report</u>	79
<u>Appointment of the Independent Registered Public Accounting Firm</u>	80
<u>Audit and Related Fees</u>	80
<u>Section 16(a) Beneficial Interest Reporting Compliance</u>	82
<u>Expenses of Proxy Solicitation</u>	82
<u>Shareholder Proposals</u>	82
<u>Shareholder Communications</u>	83
<u>Fiscal Year</u>	83
<u>Annual Report Delivery</u>	83
<u>Other Information</u>	83
<u>APPENDIX A AGREEMENT AND PLAN OF REORGANIZATION</u>	A-1
<u>APPENDIX B BENEFICIAL OWNERSHIP</u>	B-1
<u>APPENDIX C NUMBER OF BOARD AND COMMITTEE MEETINGS HELD DURING EACH FUND'S LAST FISCAL YEAR</u>	C-1
<u>APPENDIX D NUVEEN FUND BOARD AUDIT COMMITTEE CHARTER</u>	D-1
<u>APPENDIX E MINNESOTA STATUTES RIGHTS OF DISSENTING SHAREHOLDERS</u>	E-1
<u>APPENDIX F CONFIDENTIAL INFORMATION MEMORANDUM</u>	F-1

Table of Contents

PROPOSAL NO. 1 THE ELECTION OF BOARD MEMBERS

(SHAREHOLDERS OF EACH FUND)

Tax-Free Advantage and Dividend Advantage Funds

Pursuant to the organizational documents of each of Tax-Free Advantage and Dividend Advantage (the Massachusetts Funds), each 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. For each Massachusetts Fund, under normal circumstances, holders of preferred shares 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 Massachusetts Fund:

- (a)(i) Three (3) Board Members are to be elected by holders of common shares and preferred shares, voting together as a single class. Board Members Amboian, Kundert and Toth have been designated as Class II Board Members and are nominees for Board Members at the Annual Meetings for a term expiring at the 2014 annual meeting of shareholders or until their successors have been duly elected and qualified. Board Members Bremner, Evans, Stockdale, Stone and Stringer are continuing Board Members. Board Members Bremner and Evans have been designated as Class III Board Members for a term expiring at the 2012 annual meeting of shareholders or until their successors have been duly elected and qualified. Board Members Stockdale, Stone and Stringer have been designated as Class I Board Members for a term expiring at the 2013 annual meeting of shareholders or until their successors have been duly elected and qualified.

- (a)(ii) Two (2) Board Members are to be elected by holders of preferred shares, voting separately as a single class. 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.

Premium Income and Premium Income 2 Funds

At the Annual Meeting of each of Premium Income and Premium Income 2 (the Minnesota Funds), Board Members are to be elected to serve until the next annual meeting or until their successors have been duly elected and qualified. Under the terms of each Minnesota Fund's organizational documents, under normal circumstances, holders of preferred shares are entitled to elect two (2) Board Members, and the remaining Board Members are to be elected by holders of common shares and preferred shares, voting together as a single class.

For each Minnesota Fund:

- (b)(i) Eight (8) Board Members are to be elected by holders of common shares and preferred shares, voting together as a single class. Board Members Amboian, Bremner, Evans, Kundert, Stockdale, Stone, Stringer and Toth are nominees for election by all shareholders.

Table of Contents

- (b)(ii) Two (2) Board Members are to be elected by holders of preferred shares, voting separately as a single class. Board Members Hunter and Schneider are nominees for election by holders of preferred shares.

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 Minnesota Fund, each Board Member other than Board Member Stringer was last elected to each Fund's Board at the annual meeting of shareholders held on November 16, 2010.

For each Massachusetts Fund, Board Members Stockdale and Stone were last elected to the Fund's Board as Class I Board Members at the annual meeting of shareholders held on November 16, 2010.

For each Massachusetts Fund, Board Members Bremner and Evans were last elected to each Fund's Board as Class III Board Members at the annual meeting of shareholders held on November 30, 2009 and adjourned to January 12, 2010.

For each Massachusetts Fund, Board Members Hunter and Schneider were last elected to each Fund's Board at the annual meeting of shareholders held on November 30, 2009 and adjourned to January 12, 2010.

On January 1, 2011, Ms. Stringer was appointed as a Board Member for each Fund, and designated as a Class I Board Member with respect to each Massachusetts Fund.

Other than Mr. Amboian (for all Funds), all Board Member nominees are not interested persons as defined in the 1940 Act, of the Funds or of the Nuveen Fund Advisors, Inc. (the Adviser) 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.

Table of Contents

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

Board Nominees/Board Members

Name, Address and Birth Date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Board Member/Nominee	Other Directorships Held by Board Member/Nominee During the Past Five Years
Independent Board Members/Nominees					
Robert P. Bremner* c/o Nuveen Investments, Inc. 333 West Wacker Drive Chicago, IL 60606 (8/22/40)	Chairman of Board and Board Member	Term: Annual or Class III Board Member until 2012 Annual Meeting Length of Service: Since 1996	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).	241	N/A
Jack B. Evans c/o Nuveen Investments, Inc. 333 West Wacker Drive Chicago, IL 60606 (10/22/48)	Board Member	Term: Annual or Class III Board Member until 2012 Annual Meeting Length of Service: Since 1999	President, The Hall-Perrine Foundation, a private philanthropic corporation (since 1996); formerly, Director, Alliant Energy. Member of the 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, Alliant Energy; formerly, Director, Federal Reserve Bank of Chicago; formerly, President and Chief Operating Officer, SCI Financial Group, Inc., a regional financial services firm.	241	Director and Chairman, United Fire Group, a publicly held company; formerly Director, Alliant Energy.

Table of Contents

Name, Address and Birth Date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Board Member/Nominee	Other Directorships Held by Board Member/Nominee During the Past Five Years
William C. Hunter c/o Nuveen Investments, Inc. 333 West Wacker Drive Chicago, IL 60606 (3/6/48)	Board Member	Term: Annual Board Member Length of Service: Since 2004	Dean (since 2006), Tippie College of Business, University of Iowa; Director (since 2005), Beta Gamma Sigma International Honor Society; Director of 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).	241	Director (since 2004) of Xerox Corporation.

Table of Contents

Name, Address and Birth Date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Board Member/Nominee	Other Directorships Held by Board Member/Nominee During the Past Five Years
David J. Kundert* c/o Nuveen Investments, Inc. 333 West Wacker Drive Chicago, IL 60606 (10/28/42)	Board Member	Term: Annual or Class II Board Member until 2011 Annual Meeting 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; Member, Board of Regents, 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.	241	N/A

Table of Contents

Name, Address and Birth Date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Board Member/Nominee	Other Directorships Held by Board Member/Nominee During the Past Five Years
William J. Schneider* c/o Nuveen Investments, Inc. 333 West Wacker Drive Chicago, IL 60606 (9/24/44)	Board Member	Term: Annual Board Member 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; 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.	241	N/A
Judith M. Stockdale c/o Nuveen Investments, Inc. 333 West Wacker Drive Chicago, IL 60606 (12/29/47)	Board Member	Term: Annual Board Member or Class I Board Member until 2013 annual meeting Length of Service: Since 1997	Executive Director, Gaylord and Dorothy Donnelley Foundation (since 1994); prior thereto, Executive Director, Great Lakes Protection Fund (1990-1994).	241	N/A
Carole E. Stone* c/o Nuveen Investments, Inc. 333 West Wacker Drive Chicago, IL 60606 (6/28/47)	Board Member	Term: Annual Board Member or Class I Board Member until 2013 annual meeting 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).	241	Director, Chicago Board Options Exchange (since 2006).

Table of Contents

Name, Address and Birth Date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Board Member/Nominee	Other Directorships Held by Board Member/Nominee During the Past Five Years
Virginia L. Stringer c/o Nuveen Investments, Inc. 333 West Wacker Drive Chicago, IL 60606 (8/16/44)	Board Member	Term: Annual Board Member or Class I Board Member until 2013 annual meeting Length of Service: Since 2011	Board Member, Mutual Fund Directors Forum; Member, Governing Board, Investment Company Institute's Independent Directors Council; Governance consultant and non-profit board member; 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.	241	Previously, Independent Director (1987-2010) and Chair (1997-2010), First American Fund Complex.

Table of Contents

Name, Address and Birth Date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Board Member/Nominee	Other Directorships Held by Board Member/Nominee During the Past Five Years
Terence J. Toth* c/o Nuveen Investments, Inc. 333 West Wacker Drive Chicago, IL 60606 (9/29/59)	Board Member	Term: Class II Board Member 2011 Annual Meeting Length of Service: Since 2008	Director, Legal & General Investment Management America, Inc. (since 2008); Managing Partner, Promus Capital (since 2008); 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, Goodman Theatre Board (since 2004); Chicago Fellowship Board (since 2005) and Catalyst Schools of Chicago Board (since 2008); 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).	241	N/A

Table of Contents

Name, Address and Birth Date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Board Member/Nominee	Other Directorships Held by Board Member/Nominee During the Past Five Years
Non-Independent Board Member/Nominee					
John P. Amboian ⁽²⁾ 333 West Wacker Drive Chicago, IL 60606 (6/14/61)	Board Member	Term: Annual or Class II Board Member until 2011 Annual Meeting Length of Service: Since 2008	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 Advisers Inc.; Director (since 1998), formerly, Chief Executive Officer (2007-2010) of Nuveen Fund Advisors, Inc.	241	N/A

* Also serves as a trustee of Nuveen Diversified Commodity Fund, an exchange-traded commodity pool managed by Nuveen Commodities Asset Management, LLC, an affiliate of each Fund's Adviser.

(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. Amboian is an interested person of the Funds as defined in the 1940 Act, by reason of his positions and Nuveen and certain of his 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, 2011 is set forth in Appendix B. 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 October 31, 2011 is set forth in Appendix B. On October 31, 2011, Board Members and executive officers as a group beneficially owned approximately 1,100,000 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). As of October 31, 2011, each Board Member's individual beneficial shareholdings of each Fund constituted less than 1% of the outstanding shares of each Fund. As of October 31, 2011, the Board Members and executive officers as a group beneficially owned less than 1% of the outstanding shares of each Fund. As of October 31, 2011, no shareholder beneficially owned more than 5% of any class of shares of any Fund, except as provided under General Information Shareholders of the Acquiring Fund and the Acquired Funds.

Compensation

Prior to January 1, 2012, Independent Board Members received a \$120,000 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 was required and \$2,000

Table of Contents

per meeting for attendance by telephone or in person at such meetings where in-person attendance was 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 was required and \$2,000 per meeting for attendance by telephone or in person at such meetings where in-person attendance was 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 was required and \$2,000 per meeting for attendance by telephone or in person at such meetings where in-person attendance was not required; (e) a fee of \$1,000 per meeting for attendance in person or by telephone at Dividend Committee meetings; and (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 was required and \$250 per meeting for attendance by telephone or in person at such committee meetings (excluding shareholder meetings) where in-person attendance was 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 were received for meetings held on days on which regularly scheduled Board meetings were held. In addition to the payments described above, the Independent Chairman of the Board received \$75,000, the chairpersons of the Audit Committee, the Dividend Committee and the Compliance, Risk Management and Regulatory Oversight Committee received \$10,000 each and the chairperson of the Nominating and Governance Committee received \$5,000 as additional retainers. Independent Board Members also received a fee of \$3,000 per day for site visits to entities that provided services to the Nuveen funds on days on which no Board meeting was held. When ad hoc committees were organized, the Nominating and Governance Committee at the time of formation determined compensation to be paid to the members of such committee; however, in general, such fees were \$1,000 per meeting for attendance in person or by telephone at ad hoc committee meetings where in-person attendance was required and \$500 per meeting for attendance by telephone or in person at such meetings where in-person attendance was not required. The annual retainer, fees and expenses were allocated among the Nuveen funds on the basis of relative net assets, although management might have, in its discretion, established a minimum amount to be allocated to each fund.

Effective January 1, 2012, Independent Board Members receive a \$130,000 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

Table of Contents

Open-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.

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⁽¹⁾

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
Tax-Free Advantage	\$ 547	\$ 421	\$ 351	\$ 452	\$ 423	\$ 397	\$ 395	\$	\$ 442
Premium Income	542	445	372	436	447	426	382		424
Premium Income 2	1,012	843	788	916	942	833	699		803
Dividend Advantage	1,253	1,098	1,026	1,192	1,226	1,019	911		1,044
Total Compensation from Nuveen Funds Paid to Board Members/Nominees⁽²⁾	\$ 265,748	\$ 230,443	\$ 199,401	\$ 243,469	\$ 243,212	\$ 213,579	\$ 188,000	\$	\$ 230,630

Table of Contents

- (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:

	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
Tax-Free Advantage	\$	\$	\$	\$	\$	\$	\$	\$	\$
Premium Income									
Premium Income 2	164	231	788	916	942	441			182
Dividend Advantage	204	301	1,026	1,192	1,226	541			236

- (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, 2010 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 (collectively, the Board) oversees the operations and management of the Fund, including the duties performed for the Fund 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

Table of Contents

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. 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 C.

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 C.

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 Amex, 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

Table of Contents

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 Amex, 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 D. The number of Audit Committee Meetings of each Fund held during its last fiscal year is shown in Appendix C.

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

Table of Contents

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 C.

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 Members at the time of consideration of the nominees. All

Table of Contents

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/Info/Shareholder/, and is composed entirely of Independent Board Members, who are also independent as defined by NYSE or NYSE Amex 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 C.

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 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.

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 C. 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/Info/Shareholder/.

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.

Table of Contents

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 Master 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, is a Life Trustee of Coe College and is a member of the Advisory Council of the Department of Finance in the Tippie College of Business, University of Iowa. He has a Bachelor of Arts degree from Coe College and an MBA from the University of Iowa.

William C. Hunter

Mr. Hunter 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

Table of Contents

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 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 President-Elect 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 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 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 degree from the University of Dayton.

Judith M. Stockdale

Ms. Stockdale is currently 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

Table of Contents

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 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 immediate past board chair of the Oak Leaf Trust, director and immediate past board chair of the Saint Paul Riverfront Corporation and is immediate past 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 Board on Judicial Standards and recently 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 also 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 has served as a Director of Legal & General Investment Management America, Inc. (since 2008) and as a Managing Partner at Promus Capital since 2008. 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 the Goodman Theatre and Chicago Fellowship, and is Chairman of the Board of Catalyst Schools of Chicago. 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.

Table of Contents

Board Member Terms. For each Minnesota Fund, all Board Members are elected annually. For each Massachusetts 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.

Table of Contents**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 December 31, 2011.

Name, Address and Birth date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Served by Officer
Gifford R. Zimmerman 333 West Wacker Drive Chicago, IL 60606 (9/9/56)	Chief Administrative Officer	Term/Annual Length of Service: 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, Inc.; Managing Director, Assistant Secretary and Associate General Counsel of Nuveen Asset Management, LLC (since 2011); Managing Director (since 2004) and Assistant Secretary (since 1994) of Nuveen Investments, Inc.; Vice President and Assistant Secretary of NWQ Investment Management Company, LLC (since 2002); Vice President and Assistant Secretary of 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 Tradewinds Global Investors, LLC and Santa Barbara Asset Management, LLC (since 2006), Nuveen HydePark Group, LLC and Nuveen Investment Solutions, Inc. (since 2007), and of Winslow Capital Management, Inc. (since 2010); Chief Administrative Officer and Chief Compliance Officer (since 2006) of Nuveen Commodities Asset Management, LLC; Chartered Financial Analyst.	241

Table of Contents

Name, Address and Birth date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Served by Officer
William Adams IV 333 West Wacker Drive Chicago, IL 60606 (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, Inc. (since 2011); Managing Director (since 2010) of Nuveen Commodities Asset Management, LLC.	133
Cedric H. Antosiewicz 333 West Wacker Drive Chicago, IL 60606 (1/11/62)	Vice President	Term/Annual Length of Service: Since 2007	Managing Director (since 2004) of Nuveen Securities LLC.	133
Margo L. Cook 333 West Wacker Drive Chicago, IL 60606 (4/11/64)	Vice President	Term/Annual Length of Service: Since 2009	Executive Vice President (since 2008) of Nuveen Investments, Inc. and Nuveen Fund Advisors, Inc. (since 2011); Managing Director Investment Services of Nuveen Commodities Asset Management, LLC (since August 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.	241

Table of Contents

Name, Address and Birth date	Position(s) Held with Fund	Term of Office and Length of Time Served ⁽¹⁾	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Served by Officer
Lorna C. Ferguson 333 West Wacker Drive Chicago, IL 60606 (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.	241
Stephen D. Foy 333 West Wacker Drive Chicago, IL 60606 (5/31/54)	Vice President and Controller	Term/Annual Length of Service: Since 1993	Senior Vice President (since 2010), formerly, Vice President (2004-2010) and Funds Controller of Nuveen Securities, LLC; Vice President of Nuveen Fund Advisors, Inc. (since 2005); Chief Financial Officer (since 2010) of Nuveen Commodities Asset Management, LLC; Certified Public Accountant.	241

Table of Contents

Name, Address and Birth date	Position(s) Held with Fund	Term of Office and Length of Time Served ⁽¹⁾	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Served by Officer
Scott S. Grace 333 West Wacker Drive Chicago, IL 60606 (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 (since 2009) of Nuveen Investment Solutions, Inc., Nuveen Investments Advisers Inc., Nuveen Investments Holdings, Inc., Nuveen Fund Advisors, Inc. and (since 2011) Nuveen Asset Management, LLC; Vice President and Treasurer of NWQ Investment Management Company, LLC, Tradewinds Global Investors, LLC, Symphony Asset Management LLC and Winslow Capital Management, Inc.; 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.	241

Table of Contents

Name, Address and Birth date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Served by Officer
Walter M. Kelly 333 West Wacker Drive Chicago, IL 60606 (2/24/70)	Vice President and Chief Compliance Officer	Term/Annual Length of Service: Since 2003	Senior Vice President (since 2008) and Assistant Secretary (since 2003) of Nuveen Fund Advisors, Inc.	241
Tina M. Lazar 333 West Wacker Drive Chicago, IL 60606 (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, Inc.	241
Larry W. Martin 333 West Wacker Drive Chicago, IL 60606 (7/27/51)	Vice President and Assistant Secretary	Term/Annual Length of Service: Since 1988	Senior Vice President (since 2010), formerly, Vice President (1993-2010), Assistant Secretary and Assistant General Counsel of Nuveen Securities, LLC; Senior Vice President (since 2011) of Nuveen Asset Management, LLC; Senior Vice President (since 2010), formerly, Vice President (2005-2010), and Assistant Secretary of Nuveen Investments, Inc.; Senior Vice President (since 2010), formerly, Vice President (2005-2010) and Assistant Secretary (since 1997) of Nuveen Fund Advisors, Inc.; Vice President and Assistant Secretary of Nuveen Investments Advisers Inc. (since 2002), NWQ Investment Management Company, LLC, Symphony Asset Management LLC (since 2003), Tradewinds Global Investors, LLC, Santa Barbara Asset Management LLC (since 2006), Nuveen HydePark Group, LLC, Nuveen Investment Solutions, Inc. (since 2007) and Winslow Capital Management, Inc. (since 2010); Vice President and Assistant Secretary of Nuveen Commodities Asset Management, LLC (since 2010).	241

Table of Contents

Name, Address and Birth date	Position(s) Held with Fund	Term of Office and Length of Time Served⁽¹⁾	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Served by Officer
Kevin J. McCarthy 333 West Wacker Drive Chicago, IL 60606 (3/26/66)	Vice President and Secretary	Term/Annual Length of Service: Since 2007	Managing Director (since 2008), formerly, Vice President (2007-2008) of Nuveen Securities, LLC; Managing Director (since 2008), Vice President and Assistant Secretary (since 2007) and Co-General Counsel (since 2011) of Nuveen Fund Advisors, Inc.; Managing Director, Assistant Secretary and Associate General Counsel (since 2011) of Nuveen Asset Management, LLC; Vice President and Assistant Secretary of Nuveen Investments Advisers Inc., NWQ Investment Management Company, LLC, Tradewinds Global Investors, LLC, NWQ Holdings, LLC, Symphony Asset Management LLC, Santa Barbara Asset Management, LLC, Nuveen HydePark Group, LLC, Nuveen Investment Solutions, Inc. and Winslow Capital Management, Inc. (since 2010); Vice President and Secretary (since 2010) of Nuveen Commodities Asset Management, LLC; prior thereto, Partner, Bell, Boyd & Lloyd LLP (1997-2007).	241
Kathleen L. Prudhomme 901 Marquette Avenue Minneapolis, MN 55402 (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, Inc.; Managing Director, Assistant Secretary and Associate General Counsel (since 2011) of Nuveen Asset Management, LLC; formerly; Deputy General Counsel, FAF Advisors, Inc. (2004-2010).	241

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

Table of Contents

PROPOSAL NO. 2 REORGANIZATION OF EACH ACQUIRED FUND INTO THE ACQUIRING FUND (SHAREHOLDERS OF EACH ACQUIRED FUND; PREFERRED SHAREHOLDERS OF ACQUIRING FUND)

A. SYNOPSIS

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

Background and Reasons for the Reorganizations

The Board of Nuveen's municipal closed-end funds has approved a series of mergers of single-state municipal closed-end funds, including the reorganization of each of the Acquired Funds into the Acquiring Fund. The Acquiring Fund and the Acquired Funds have similar (but not identical) investment objectives and policies, and similar portfolio compositions. The proposed Reorganizations are intended to enhance the secondary trading market for common shares of the Funds and lower operating expenses as a result of the larger size of the combined fund. The Board has determined that the proposed Reorganizations would be in the best interests of each Fund. The closing of the Reorganizations is contingent upon certain conditions being satisfied or waived. Shareholders of each Acquired Fund, voting separately, must approve the Reorganization of their Fund into the Acquiring Fund in order for the Reorganizations to occur. The Acquiring Fund also must obtain certain shareholder approvals described in this Joint Proxy Statement with respect to the Reorganizations in order for the Reorganizations to occur. Additionally, in order for the Reorganization to occur, each Fund must obtain certain consents and/or waivers from various third parties, including liquidity providers with respect to VRDP Shares. Because the closing of the Reorganizations is contingent on all of the Acquired Funds and the Acquiring Fund satisfying (or obtaining the waiver of) their respective closing conditions, it is possible your Fund's 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 Boards of the Funds may take such actions as they deem in the best interest of the Funds including conducting additional solicitations with respect to the proposals or continuing to operate the Funds as stand-alone funds. For a fuller discussion of the Boards' considerations regarding the approval of the Reorganizations, see Proposal No. 2 Information About the Reorganizations Reasons for the Reorganizations.

Material Federal Income Tax Consequences of the Reorganizations

As a condition to closing, the Funds will receive an opinion of Vedder Price P.C. to the effect that each 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, Sidley Austin LLP, as special tax counsel to the Acquiring Fund, will deliver an opinion to the Acquiring Fund, subject to certain representations, assumptions and conditions, to the effect that the Acquiring Fund VRDP Shares issued in exchange for the VRDP Shares of the Acquired Funds will qualify as stock in the Acquiring Fund for federal income tax purposes. Accordingly, it is expected that no Fund will recognize gain or loss for federal income tax purposes as a direct result of the Reorganizations. To the extent that portfolio securities are sold in connection with the Reorganizations, an Acquired Fund may realize capital gains

Table of Contents

or losses. Gains from such sales will be taxable to Acquired Fund preferred shareholders to the extent such amounts are required to be allocated to distributions received by Acquired Fund preferred shareholders. However, it is not currently expected that any significant portfolio sales will occur in connection with the Reorganizations (less than 12% of the assets of each Acquired Fund), though increased portfolio turnover also may result from the New Fundamental 80% Policy. It is expected that preferred shareholders of each Acquired Fund who receive Acquiring Fund VRDP Shares pursuant to a Reorganization will recognize no gain or loss for federal income tax purposes. However, gain or loss may be recognized by a shareholder who exercises dissenters' rights of appraisal under Minnesota law.

Comparison of the Acquiring Fund and Each Acquired Fund

General. The Acquiring Fund and each Acquired Fund are closed-end management investment companies. Two of the Acquired Funds (Premium Income and Premium Income 2) are diversified management investment companies, while the Acquiring Fund and one Acquired Fund (Dividend Advantage) are non-diversified management investment companies. The common shares of the Acquiring Fund and Dividend Advantage are listed and trade on the NYSE Amex. The common shares of Premium Income and Premium Income 2 are listed and trade on the NYSE. The Acquiring Fund and Dividend Advantage were organized on July 29, 2002 and July 12, 1999, respectively, as business trusts under the laws of the Commonwealth of Massachusetts. Premium Income and Premium Income 2 were organized on March 31, 1992 and January 13, 1993, respectively, as corporations under the laws of the State of Minnesota. The common shares of each Fund have equal voting rights and equal rights with respect to the payment of dividends and distribution of assets upon liquidation and have no preemptive, conversion or exchange rights or rights to cumulative voting. The Acquiring Fund VRDP Shares to be issued to the Acquired Funds pursuant to the Reorganizations will have rights and preferences, including liquidation preferences, that are substantially identical, as of the time of the closing of the Reorganizations, to those of the outstanding Acquired Fund VRDP Shares for which they are exchanged.

Investment Objectives and Policies. The Acquiring Fund and Acquired Funds have similar (but not identical) investment objectives and policies. The Acquiring Fund's investment objectives are to provide current income exempt from regular federal income tax, the federal alternative minimum tax (AMT) applicable to individuals and California income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund's investment adviser, Nuveen Fund Advisors, Inc. (the Adviser), believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

Dividend Advantage's investment objectives are to provide current income exempt from regular federal and California income taxes and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

Premium Income's primary investment objective is current income exempt from regular federal income taxes and California personal income taxes, consistent with the Fund's investment policies, and its secondary investment objective is to enhance portfolio value relative to the California municipal bond market through investments in tax-exempt California municipal obligations that the Adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

Table of Contents

Premium Income 2's primary investment objective is current income exempt from regular federal income taxes and California personal income taxes, consistent with the Fund's investment policies, and its secondary investment objective is to enhance portfolio value relative to the California municipal bond market by investing in tax-exempt California municipal securities that the Adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

Under normal circumstances, each Fund will invest at least 80% of its net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) or any preferred shares outstanding (Managed Assets), in municipal securities and other related investments the income from which is exempt from regular federal and California income taxes and are covered by insurance guaranteeing the timely payment of principal and interest thereon. Inverse floaters, whose underlying bonds are covered by insurance guaranteeing the timely payment of principal and interest thereon, are included for purposes of determining compliance with the above-referenced 80% test with respect to each Fund. The Acquired Funds do not have any policy regarding investments in securities subject to the federal AMT, and may have substantial holdings of securities subject to such tax, while the Acquiring Fund, as a non-fundamental policy, invests at least 80% of its Managed Assets in municipal securities and other related investments the income from which is exempt from federal AMT.

Under normal circumstances, the municipal securities in which each Fund invests will be, at the time of purchase, (i) rated BBB/Baa or better by a nationally recognized statistical rating organization (NRSRO) or covered by insurance from insurers with a claims-paying ability rated BBB/Baa or better by an NRSRO; (ii) unrated, but judged to be of comparable quality by the Adviser; or (iii) backed by an escrow or trust account containing sufficient U.S. Government or U.S. Government agency securities to ensure timely payment of principal and interest.

If a municipal security satisfies the rating requirements described above at the time of purchase, a Fund will not be required to dispose of the security upon downgrade.

Each Fund may enter into derivative instruments to achieve its investment objectives, enhance return, hedge certain risks of its investments in fixed income securities or as a substitute for a position in the underlying asset. Such instruments include financial futures contracts, swap contracts (including credit default swaps and interest rate 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 future contracts or related options.

Each Fund may invest up to 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 net asset value if the underlying municipal bond increases in value, but will also experience a correspondingly larger decline in its common net asset value if the underlying bond declines in value.

Each Fund may borrow for temporary or emergency purposes, including to pay dividends, repurchase its shares, or settle portfolio transactions.

Table of Contents

Credit Quality. A comparison of the credit quality of the respective portfolios of the Acquiring Fund and the Acquired Funds, as of August 31, 2011, is set forth in the table below.

Credit Rating	Acquiring Fund	Premium Income	Premium Income 2	Dividend Advantage	Combined Fund Pro Forma⁽¹⁾
Aaa/AAA*	17%	19%	7%	10%	11%
Aa/AA	38%	42%	47%	40%	43%
A/A	26%	32%	35%	31%	32%
Baa/BBB	5%	4%	9%	12%	8%
Ba/BB or Lower	4%	N/A	N/A	3%	2%
Unrated	10%	3%	2%	4%	4%
TOTAL	100%	100%	100%	100%	100%

* Includes securities that are backed by an escrow or trust containing sufficient, U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.

(1) Reflects the effect of the Reorganizations.

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 and (b) the issuance of preferred shares. 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 as of August 31 for the last three fiscal years is set forth below:

Acquiring Fund	2011	2010	2009
Asset Coverage Ratio	331.13%	341.88%	325.99%
Structural Leverage Ratio ⁽¹⁾	30.20%	29.25%	30.68%
Effective Leverage Ratio ⁽²⁾	35.31%	34.28%	35.82%

Premium Income	2011	2010	2009
Asset Coverage Ratio	344.12%	357.28%	316.27%
Structural Leverage Ratio ⁽¹⁾	29.06%	27.99%	31.62%
Effective Leverage Ratio ⁽²⁾	38.24%	37.07%	39.84%

Premium Income 2	2011	2010	2009
Asset Coverage Ratio	315.86%	325.75%	300.60%
Structural Leverage Ratio ⁽¹⁾	31.66%	30.70%	33.27%
Effective Leverage Ratio ⁽²⁾	36.93%	35.92%	37.68%

Dividend Advantage	2011	2010	2009
Asset Coverage Ratio	325.73%	312.14%	307.04%
Structural Leverage Ratio ⁽¹⁾	30.70%	32.04%	32.57%
Effective Leverage Ratio ⁽²⁾	36.66%	39.23%	35.59%

- (1) Structural leverage consists of preferred shares or debt issued by the Fund. Both of these are part of a Fund's capital structure. Structural leverage is sometimes referred to as 1940 Act Leverage and is subject to asset coverage limits set in the Investment Company Act of 1940.
- (2) Effective leverage is a Fund's effective economic leverage, and includes both structural leverage and the leverage effects of certain derivative investments in the Fund's portfolio. Currently, the leverage effects of

Table of Contents

Tender Option Bond (TOB) inverse floater holdings are included in effective leverage values, in addition to any structural leverage.

Board Members and Officers. The Acquiring Fund and the Acquired Funds have the same Board Members and officers. The management of each Fund, including general supervision of the duties performed by the Adviser under the Investment Management Agreement for each Fund, is the responsibility of its Board. Each Fund currently has ten (10) trustees or directors, one (1) of whom is an interested person (as defined in the 1940 Act) and nine (9) of whom are not interested persons. 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. Nuveen Fund Advisors, Inc. (Nuveen Fund Advisors or the Adviser), is the investment adviser to each Fund and is responsible for investing each Fund's net assets. The Adviser oversees the management of each Fund's portfolio, manages each Fund's business affairs and provides certain clerical, bookkeeping and other administrative services. Nuveen Fund Advisors is located at 333 West Wacker Drive, Chicago, Illinois 60606.

The Adviser, a registered investment adviser, is a wholly-owned subsidiary of Nuveen Investments, Inc. Founded in 1898, Nuveen Investments and its affiliates had approximately \$198 billion of assets under management as of September 30, 2011. 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), located at 333 West Wacker Drive, Chicago, IL 60606, to serve as a sub-adviser to each of the Funds. Nuveen Asset Management manages the investment of the Funds assets on a discretionary basis, subject to the supervision of Nuveen Fund Advisors. Nuveen Asset Management is a wholly-owned subsidiary of Nuveen Fund Advisors and was appointed as a sub-adviser in January 2011 as part of an internal restructuring of the Adviser.

Each Fund is dependent upon services and resources provided by its investment adviser, Nuveen Fund Advisors, and therefore the investment 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.

Pursuant to an Investment Management Agreement between the Adviser and each Fund, each Fund's management fee is separated into two components—a complex-level component, based on the aggregate amount of all fund assets managed by Nuveen Fund Advisors, and a fund-level component, based only on the amount of managed assets within such Fund. The pricing structure enables the

Table of Contents

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 as of August 31, 2011, is based upon the average daily managed assets of each Fund as follows:

Management Fee Schedule for the Acquiring Fund and Dividend Advantage

Average Daily Managed Assets*	Rate
For the first \$125 million	0.4500%
For the next \$125 million	0.4375%
For the next \$250 million	0.4250%
For the next \$500 million	0.4125%
For the next \$1 billion	0.4000%
For \$2 billion and over	0.3750%

Management Fee Schedule for Premium Income and Premium Income 2

Average Daily Managed Assets*	Rate
For the first \$125 million	0.4500%
For the next \$125 million	0.4375%
For the next \$250 million	0.4250%
For the next \$500 million	0.4125%
For the next \$1 billion	0.4000%
For the next \$3 billion	0.3875%
For \$5 billion and over	0.3750%

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 38.4615% 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 management fee rate for the combined fund is expected to be lower than the current management fee rate for each of the Acquiring and Acquired Funds. 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 total managed assets for all Nuveen sponsored funds in the U.S., as stated in the table below. As of August 31, 2011, the complex-level fee rate was 0.1781%.

Table of Contents

The complex-level fee rate is as follows:

Complex-Level Fee Rates

Complex-Level Managed Asset Breakpoint Level*	Effective Rate at Breakpoint 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%
\$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 and assets in excess of \$2 billion added to the Nuveen Fund complex in connection with the Adviser's 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 advisory agreement and sub-advisory agreement is included in the Fund's Semiannual Report for the six months ended August 31, 2011.

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. Scott R. Romans, PhD, is the portfolio manager of the Acquiring Fund and each Acquired Fund. Scott Romans has been the portfolio manager for the Acquiring Fund and Dividend Advantage since 2003 and Premium Income and Premium Income 2 since 2005.

Scott Romans joined Nuveen in 2000 as a senior analyst covering higher education, charter schools and private secondary schools and assumed certain portfolio management responsibilities in 2003. He manages 33 Nuveen-sponsored investment companies, with a total of approximately \$6.4 billion under management as of September 30, 2011.

Table of Contents**Comparative Expense Information**

The purpose of the comparative fee table is to assist you in understanding the various costs and expenses of investing in shares of the Funds. The information in the table is based upon annualized expenses for each Fund's fiscal year ended February 28, 2011, as adjusted as described in footnote 1 below, and the pro-forma expenses for the 12 months ended February 28, 2011, 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 rate of return may be greater or less than the hypothetical 5% annual return shown in the Example.

Comparative Fee Table⁽¹⁾

	Acquiring Fund	Premium Income	Premium Income 2	Dividend Advantage	Combined Fund Pro Forma (All Funds)⁽²⁾
Annual Expenses (as a percentage of net assets applicable to common shares)					
Management Fees	0.94%	0.94%	0.96%	0.95%	0.92%
Interest and Related Expenses from Inverse Floaters and Preferred Shares ⁽³⁾	0.71%	0.71%	0.60%	0.73%	0.69%
Other Expenses	0.19%	0.12%	0.09%	0.08%	0.09%
Total Annual Expenses	1.84%	1.77%	1.65%	1.76%	1.70%

- (1) Annual Expenses (as a percentage of net assets applicable to common shares) are based on the expenses of the Acquiring Fund and Acquired Funds for the 12 months ended February 28, 2011, subject to the following adjustments. For the Acquiring Fund and the Acquired Funds, Interest and Related Expenses from Inverse Floaters and Preferred Shares reflects annualized interest and related expenses for preferred shares that were outstanding for less than the 12-month period or that were not outstanding at February 28, 2011 but were subsequently issued. For the Acquiring Fund and Acquired Funds, Other Expenses excludes expenses incurred during the 12-month period for auction fees and/or dividend disbursing agent fees associated with auction rate preferred shares that are no longer outstanding. For the Acquiring Fund and Dividend Advantage, fee and expense reimbursements that expired during the prior period or that will expire during the current period are not reflected. It is important for you to understand that a decline in the Fund's average net assets applicable to common shares during the current fiscal year due to recent market volatility or other factors could cause each Fund's expense ratios for that Fund's current fiscal year to be higher than the expense information presented.
- (2) The pro forma combined figures assume the consummation of the Reorganizations on February 28, 2011, and reflect average net assets applicable to common shares for both the Acquiring Fund and Acquired Funds for the 12-month period ended February 28, 2011. Pro forma expenses do not include the expenses to be borne by the Funds in connection with the Reorganizations, which are estimated to be \$160,000 (0.20%) for the Acquiring Fund, \$365,000 (0.39%) for Premium Income, \$290,000 (0.16%) for Premium Income 2, and \$20,000 (0.01%) for Dividend Advantage.
- (3) Interest and Related Expenses from Inverse Floaters arises because accounting rules require the Funds to treat interest paid by trusts issuing certain inverse floating rate investments held by the Funds as having been paid (indirectly) by the Funds. Because the Funds also recognize corresponding amounts of interest income (also indirectly), each Fund's common share net asset value, net investment income and total return are not affected by this accounting treatment. The actual Interest and Related Expenses from Inverse Floaters incurred in the future may be higher or lower. Dividends paid on each Fund's currently outstanding preferred shares are recognized as interest expense for financial reporting purposes.

Table of Contents**Comparative Performance Information**

Comparative total return performance for the Funds for periods ended February 28, 2011:

	Average Annual Total Return on Net Asset Value				Average Annual Total Return on Market Value			
	One Year	Five Years	Ten Years	Since Inception	One Year	Five Years	Ten Years	Since Inception
Acquiring Fund	-3.18%	2.23%	N/A	4.24%	-2.71%	1.54%	N/A	2.82%
Premium Income	-1.75%	2.73%	4.65%	N/A	6.29%	2.20%	5.00%	N/A
Premium Income 2	-0.72%	2.64%	4.64%	N/A	4.38%	2.06%	4.56%	N/A
Dividend Advantage	-0.75%	3.08%	N/A	5.48%	1.81%	2.83%	N/A	4.65%

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. Total returns are not annualized. Past performance information is not necessarily indicative of future results.

B. RISK FACTORS

Because the Funds have similar investment strategies, the principal risks of each Fund are similar. The principal risks of investing in the Acquiring Fund, including risks inherent in investing in VRDP Shares, are described under the caption "Risk Factors" in the Memorandum accompanying this Joint Proxy Statement as Appendix F.

C. INFORMATION ABOUT THE REORGANIZATIONS**General**

The Board of Nuveen's municipal closed-end funds has approved a series of mergers of single-state municipal closed-end funds, including the Reorganizations with respect to the Acquiring Fund and each Acquired Fund. As noted above, the Acquiring Fund and each Acquired Fund have similar investment objectives, policies and portfolio compositions. With respect to the proposed Reorganizations, 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 operating expenses as a result of the increased size of the combined fund. The closing of the Reorganizations is contingent upon certain conditions being satisfied or waived. Principally, shareholders of each Acquired Fund, voting separately, must approve the Reorganization of their Fund into the Acquiring Fund. The Acquiring Fund also must obtain the shareholder approvals described in this Joint Proxy Statement with respect to

Table of Contents

the Reorganizations in order for the Reorganizations to occur. Each Fund also must obtain certain consents and/or waivers from various third parties, including liquidity providers with respect to outstanding VRDP Shares. Because the closing of the Reorganizations is contingent on all the Acquired Funds and the Acquiring Fund obtaining the requisite shareholder approvals and satisfying (or obtaining the waiver of) their other closing conditions, it is possible that your Fund's Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions. If the Reorganizations are not consummated, the Boards of the Funds may take such actions as they deem in the best interest of the Funds, including conducting additional solicitations with respect to the proposals or continuing to operate the Funds as stand-alone funds.

Terms of the Reorganizations

General. With respect to the Reorganizations, the Agreement and Plan of Reorganization by and among each Acquired Fund and the Acquiring Fund sets forth the terms of the Reorganizations, under which (i) the Acquiring Fund will acquire substantially all of the assets of each Acquired Fund in exchange for newly issued Acquiring Fund voting common shares and newly issued Acquiring Fund voting VRDP Shares, and the Acquiring Fund's assumption of substantially all of the liabilities of each Acquired Fund, and (ii) each Acquired Fund will distribute the Acquiring Fund common shares and Acquiring Fund VRDP Shares received by the Acquired Fund to its common and preferred shareholders, respectively, as part of the liquidation, termination and dissolution of each Acquired Fund in accordance with its declaration of trust or articles of incorporation, as applicable. No fractional Acquiring Fund common shares will be issued to an Acquired Fund's shareholders, and in lieu of such fractional shares, an Acquired Fund's common shareholders will receive cash. As a result of the Reorganizations, the assets of the Acquiring Fund and each Acquired Fund would be combined, and the shareholders of each Acquired Fund would become shareholders of the Acquiring Fund. If Proposals 2 and 3 are approved at the shareholder meeting with respect to each Fund, the closing date is expected to be the close of business on or about April 6, 2012, or such other date as the parties may agree (the Closing Date). Following the Reorganizations, each Acquired Fund would terminate its registration as an investment company under the 1940 Act.

Following the Reorganizations, common shareholders of the Acquired Funds would own common shares of the Acquiring Fund (including for this purpose any fractional shares to which they would be entitled) with an aggregate net asset value immediately after the Closing Date equal to the aggregate net asset value of the Acquired Fund common shares outstanding immediately prior to the Closing Date. No fractional Acquiring Fund common shares, however, will be issued in connection with the Reorganizations. The Acquiring Fund's transfer agent will aggregate all fractional Acquiring Fund common shares that may be due to Acquired Fund shareholders as of the Closing Date and will sell the resulting whole shares for the account 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 directly to shareholders entitled to receive the fractional shares (without interest and subject to withholding taxes). As a result of the Reorganizations, common shareholders of the Funds will hold reduced percentages of ownership in the larger combined entity than they held in the Acquiring Fund or Acquired Funds individually.

Table of Contents

Following the Reorganizations, preferred shareholders of an Acquired Fund would own the same number of shares of the Acquiring Fund VRDP Shares as the Acquired Fund VRDP Shares held by such shareholders immediately prior to the Closing Date, with substantially identical terms, as of the Closing Date, to the Acquired Fund VRDP Shares for which they were exchanged. As a result of the Reorganizations, preferred shareholders of the Funds would hold reduced percentages of ownership in the combined entity.

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 Acquired Funds' 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 Reorganizations is conditioned upon (a) the requisite approval by the shareholders of each Fund of the proposals related to the Reorganizations, (b) the Funds' receipt of an opinion to the effect that each Reorganization will qualify as a reorganization under the Code, (c) the absence of legal proceedings challenging the Reorganizations and (d) the Funds' receipt of certain customary certificates and legal opinions. See Material Federal Income Tax Consequences of the Reorganizations. Additionally, in order for the Reorganizations to occur, (i) each Fund must obtain certain consents and/or waivers from various third parties, including liquidity providers with respect to outstanding VRDP Shares, (ii) the liquidity provider, the remarketing agent and the tender and paying agent for each Acquired Fund must enter into the relevant agreements described in the Memorandum with respect to each new series of Acquiring Fund VRDP Shares to be issued in the Reorganizations, and (iii) confirmation of the requisite ratings on the Acquiring Fund VRDP Shares to be issued in the Reorganizations must be obtained.

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 the 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 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 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 Reorganizations

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 Reorganizations would be in the best interests of the applicable Funds and that the interests of the existing shareholders of the Funds would not be diluted with respect to net asset value as a result of the Reorganizations. The Boards approved the Reorganizations and recommended that shareholders of the respective Funds approve the Reorganizations.

Table of Contents

In preparation for a meeting of the Boards held on November 15, 2011 (the Meeting) at which the Reorganizations were considered, the Adviser provided the Boards, prior to the Meeting and in prior meetings, with information regarding the proposed Reorganizations, including the rationale therefor and alternatives considered to the Reorganizations. Prior to approving the Reorganizations, 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 a lower expense ratio;

improved secondary market trading with respect to the common shares;

the anticipated tax-free nature of the Reorganizations;

the expected costs of the Reorganizations;

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

the effect of the Reorganizations on shareholder rights; and

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

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 (although not identical). The Boards noted that the Acquiring Fund and Dividend Advantage are non-diversified funds, while Premium Income and Premium Income 2 are diversified funds. Each Fund, however, invests primarily in municipal securities exempt from regular federal and California income tax and, with respect to the Acquiring Fund, the federal AMT. Each Fund also emphasizes investments in investment grade municipal securities. The Boards considered that the portfolio composition of each Fund is similar and considered the impact of the applicable 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 to seek to enhance its returns to common shareholders. Because the Funds have similar investment strategies, the principal risks of each Fund are also similar. However, the Acquiring Fund and Dividend Advantage are non-diversified funds and therefore subject to non-diversification risk. Moreover, the Acquiring Fund's policy of generally investing in bonds that are exempt from the federal AMT applicable to individuals may prevent the Fund from investing in certain kinds of bonds.

Consistency of Portfolio Management. The Boards noted that each Fund has the same investment adviser, sub-adviser and portfolio manager. Through the Reorganizations, the Boards recognized that shareholders will remain invested in a closed-end management investment company

Table of Contents

that will have greater net assets and benefits from potential economies of scale; the same investment adviser, sub-adviser and portfolio manager; and similar investment objectives and investment strategies.

Improved Economies of Scale and Potential for a Lower Expense Ratio. The Boards considered the fees and expense ratios of each of the Funds (including estimated expenses of the Acquiring Fund following the Reorganizations). As a result of the greater economies of scale from the larger asset size of the Acquiring Fund after the Reorganizations, the Boards noted that it was expected that the effective management fee rate and net operating expenses per common share (excluding the costs of leverage) of the combined fund would be lower than that of the Acquiring and Acquired Funds prior to the Reorganizations. 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 to seek to enhance returns to common shareholders, the Boards noted the Adviser's position that the greater asset size of the Acquiring Fund may provide greater flexibility in managing the structure and costs of leverage over time.

Improved Secondary Market Trading with Respect to the Common Shares. While it is not possible to predict trading levels at the time the Reorganizations close, the Boards noted that the Reorganizations are 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 return over time may contribute to higher common share market prices relative to net asset value, and the Acquiring Fund's greater market liquidity after the Reorganizations may lead to narrower bid-ask spreads and smaller trade-to-trade price movements. In addition, Acquired Fund common shareholders may experience improved secondary market trading after the Reorganizations because the Acquiring Fund's policy of investing primarily in municipal securities exempt from the federal AMT applicable to individuals may appeal to a broader group of investors.

Anticipated Tax-Free Reorganizations. The Reorganizations will be structured with the intention that they qualify as tax-free reorganizations for federal income tax purposes, and the Funds will obtain an opinion of counsel to such effect (based on certain factual representations and certain customary assumptions).

Expected Costs of the Reorganizations. The Boards considered the terms and conditions of the Agreement, including the estimated costs associated with the Reorganizations and the allocation of such costs between the Acquiring Fund and each Acquired Fund. The Boards noted, however, that the Adviser anticipated that the projected costs of each Reorganization may be recovered over time after the respective Closing Date and that preferred shareholders are not expected to bear any costs of the Reorganizations.

Terms of the Reorganizations and Impact on Shareholders. The terms of the Reorganizations are intended to avoid dilution of the interests of the existing shareholders of the Funds. In this regard, the Boards considered that each holder of common shares of an Acquired Fund would own 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 Acquired Fund common shares immediately prior to the closing of the Reorganizations. No fractional common shares of the Acquiring Fund, however, will be issued to shareholders in connection with the Reorganizations and, in lieu of such fractional shares, an Acquired Fund's common shareholders will receive cash.

With respect to preferred shareholders, preferred shareholders of each Acquired Fund will receive the same number of Acquiring Fund VRDP Shares having substantially identical terms as the

Table of Contents

outstanding VRDP Shares of the Acquired Fund held by such preferred shareholders immediately prior to the Reorganizations. The aggregate liquidation preference of the Acquiring Fund VRDP Shares received in each Reorganization will equal the aggregate liquidation preference of the corresponding Acquired Fund VRDP Shares held immediately prior to the Reorganization.

Effect on Shareholder Rights. The Boards considered that although Premium Income and Premium Income 2 are each organized as Minnesota corporations and the Acquiring Fund and Dividend Advantage are each organized as Massachusetts business trusts, the common shares of each Fund have equal voting rights and equal rights with respect to the payment of dividends and distribution of assets upon liquidation and have no preemptive, conversion or exchange rights or rights to cumulative voting. The Acquiring Fund VRDP Shares issued in the Reorganizations will have rights and preferences, including liquidation preferences, that are substantially identical, as of the time of the closing of the Reorganizations, to those of the outstanding Acquired Fund VRDP Shares for which they are exchanged.

Potential Benefits to the Nuveen Fund Advisors and Affiliates. The Boards recognized that the Reorganizations 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 Acquired Funds as separate Funds in the Nuveen complex.

Conclusion. The Boards, including the Independent Board Members, approved the Reorganizations, concluding that each Reorganization is in the best interests of the Acquiring Fund and respective Acquired Fund and that the interests of existing shareholders of the Funds will not be diluted as a result of the Reorganizations.

Expenses Associated with the Reorganizations

In evaluating the Reorganizations, management of the Funds estimated the amount of expenses the Funds would incur to be approximately \$835,000, which includes additional stock exchange listing fees, SEC registration fees, legal and accounting fees, proxy solicitation and distribution costs. The expenses of the Reorganizations (whether or not consummated) will be allocated between the Funds pro rata based on the relative benefits of the Reorganizations comprised of forecasted cost savings and distribution increases, if any, to each Fund during the first year following the Reorganizations and paid out of such Fund's net assets. These estimated expenses will be borne by the Acquiring Fund, Premium Income, Premium Income 2 and Dividend Advantage in the amounts of \$160,000, \$365,000, \$290,000 and \$20,000, respectively. Preferred shareholders are not expected to bear any costs of the Reorganizations.

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 aggregate estimated cost of \$19,000 plus reasonable expenses, which is included in the estimate above.

Reorganization expenses have been or will be expensed prior to the Closing Date. Management of the Funds expects that increased common net earnings resulting from reduced operating expenses (excluding costs of leverage) due to economies of scale should allow the recovery of the projected costs of each Reorganization within approximately five months after the Closing Date with respect to each Fund. In addition, management of the Funds expects that additional benefits to common shareholders may arise as a result of the Reorganizations by virtue of changes in the embedded yield, increased flexibility in managing leverage costs and potential distribution increases.

Table of Contents

Dissenting Shareholders' Rights of Appraisal

Under the charter documents of the Acquiring Fund and Dividend Advantage, shareholders of the Acquiring Fund and Dividend Advantage do not have dissenters' rights of appraisal with respect to each Fund's Reorganization.

Under Minnesota law, common shareholders of Premium Income and Premium Income 2 (the Minnesota Funds) do not have dissenters' rights of appraisal in connection with each Fund's Reorganization because each Fund's common shares are listed and trade on an exchange. Holders of VRDP Shares of the Minnesota Funds, however, are entitled to assert dissenters' rights in connection with each Fund's Reorganization and obtain payment of the fair value of their shares, provided that they comply with the requirements of Minnesota law. These dissenters' rights, and the procedures pertaining to them, are set forth in Minnesota Statutes, Sections 302A.471 and 302A.473, copies of which are attached to this Joint Proxy Statement as Appendix E. The following summary of these rights and procedures is qualified in its entirety by reference to Appendix E. Holders of VRDP Shares of each Minnesota Fund should note that they will lose their dissenters' rights of appraisal if they do not follow the required procedures carefully.

Notice of Dissent

A holder of VRDP Shares of a Minnesota Fund who is entitled to dissent under Minnesota law and who wishes to exercise dissenters' rights must file a written notice of intent to demand the fair value with the respective Minnesota Fund before the Annual Meeting. The shareholder must not vote its VRDP Shares in favor of the Agreement. For this purpose, the fair value of the shares means the value of the Minnesota Fund VRDP Shares immediately prior to the Closing Date. A written notice of intent to demand the fair value of the Minnesota Fund VRDP Shares should be submitted to the applicable Minnesota Fund addressed to Secretary, [Name of Applicable Minnesota Fund], 333 West Wacker Drive, Chicago, Illinois 60606.

This written notice is in addition to and separate from any proxy or vote against the Agreement. It should specify the shareholder's name and mailing address, the number of Minnesota Fund VRDP Shares owned and that the shareholder intends to demand the fair value, plus interest, of the shareholder's VRDP Shares. Voting against, abstaining from voting or failing to vote on the Agreement does not constitute a demand for appraisal within the meaning of Minnesota law.

Only holders of Minnesota Fund VRDP Shares of record as of the record date for the Annual Meeting, and beneficial owners as of that date who hold VRDP Shares through those record shareholders, are entitled to exercise dissenters' rights of appraisal. A shareholder cannot assert dissenters' rights of appraisal as to less than all the VRDP Shares that are registered in that shareholder's name, except where some of the VRDP Shares are registered in that shareholder's name but are beneficially owned by one or more other persons. If a record owner, such as a broker, nominee, trustee or custodian, wishes to dissent with respect to Minnesota Fund VRDP Shares that are beneficially owned by another person, the record owner must dissent with respect to all of the VRDP Shares that are beneficially owned by that person and must disclose the name and address of the beneficial owner on whose behalf the dissent is made. A beneficial owner of Minnesota Fund VRDP Shares who is not the record owner of those shares may assert dissenters' rights of appraisal as to the VRDP Shares held on that person's behalf, provided that the beneficial owner submits a written consent of the record owner to the applicable Minnesota Fund at or before the time dissenters' rights are asserted.

Table of Contents

Shareholders who wish to assert dissenters' rights of appraisal must not vote for adoption of the Agreement. A shareholder's failure to vote against the Agreement will not constitute a waiver of dissenters' rights. However, if a shareholder returns a signed proxy but does not specify a vote against the Agreement or a direction to abstain, the proxy will be voted for approval of the Agreement, which will have the effect of waiving that shareholder's dissenters' rights.

Notice of Procedure; Deposit of Shares

If the shareholders of the Acquired Funds and the Acquiring Fund approve the Agreement, each Minnesota Fund will send a notice (the Notice of Procedure) to all holders of such Fund's VRDP Shares who have provided timely written notice of their intent to demand fair value. The Notice of Procedure will contain the information required by Subdivision 4 of Section 302A.473 of the Minnesota Statutes. In order to receive the fair value of the Minnesota Fund VRDP Shares, a dissenting shareholder must demand payment and deposit certificated shares or comply with any restrictions on transfer of uncertificated shares within 30 days after the Notice of Procedure was given, but the dissenter retains all other rights of a shareholder until the applicable Reorganization takes effect. A Fund may establish contingent liabilities for any VRDP Shares for which a demand has been, or is anticipated to be, received.

Payment; Return of Shares

After the Closing Date, the applicable Minnesota Fund shall remit to each dissenting holder of such Fund's VRDP Shares who has complied with the requirements for asserting dissenters' rights the amount the Fund estimates to be the fair value of the shares, plus interest, accompanied by the materials specified by Subdivision 5 of Section 302A.473 of the Minnesota Statutes (the Payment Materials).

A Minnesota Fund may withhold this payment from a person who was not a holder of the Fund's VRDP Shares on the date the Reorganizations were first announced to the public or who is dissenting on behalf of a person who was not a beneficial owner on that date. In that case, if the dissenter has complied with the requirements for asserting dissenters' rights, the Minnesota Fund will forward to the dissenter the Payment Materials, a statement of the reason for withholding the payment, and an offer to pay to the dissenter the amount listed in the materials if the dissenter agrees to accept that amount in full satisfaction. The dissenter may decline the offer and demand payment as set forth below. Failure to do so entitles the dissenter only to the amount offered.

If the Minnesota Fund fails to remit payment within 60 days of the deposit of certificates or the imposition of transfer restrictions on uncertificated shares, it shall return all deposited certificates and cancel all transfer restrictions. However, the Fund may again give a Notice of Procedure and require deposit or restrict transfer at a later time.

Where a Minnesota Fund is required to pay the fair value of its VRDP Shares plus interest, the interest will accrue commencing five days after the Closing Date up to and including the date of payment. The interest rate will be the rate at which interest accrues on verdicts and judgments under Minnesota law.

Table of Contents

Supplemental Payment; Demand

If a dissenter believes that the amount paid is less than the fair value of the Minnesota Fund VRDP Shares plus interest, the dissenter may give written notice (Dissenter s Notice) to the Minnesota Fund of the dissenter s own estimate of the fair value of the VRDP Shares, plus interest, within 30 days after the Minnesota Fund mails the payment. The Dissenter s Notice must demand payment of the difference; otherwise, a dissenter is entitled only to the amount remitted by the Minnesota Fund.

Petition; Determination

If the Minnesota Fund receives a demand based on the dissenter s own estimate of the fair value of the Minnesota Fund VRDP Shares, plus interest, it shall, within 60 days after receiving the demand, either pay to the dissenter the amount demanded by the dissenter, pay an amount agreed to by the dissenter after discussion with the Minnesota Fund, or file in court a petition requesting that the court determine the fair value of the Minnesota Fund VRDP Shares, plus interest. The petition shall be filed in the county in which the registered office of the Minnesota Fund is located (Hennepin County). The petition shall name as parties all dissenters who have demanded payment and who have not reached agreement with the Minnesota Fund. After filing the petition, the Minnesota Fund shall serve all parties with a summons and copy of the petition under Minnesota s Rules of Civil Procedure.

The court may appoint appraisers to receive evidence on and recommend the amount of the fair value of the Minnesota Fund VRDP Shares. The court shall determine whether the shareholder or shareholders in question have fully complied with the requirements of Minnesota law. The court shall also determine the fair value of the Minnesota Fund VRDP Shares, taking into account any and all factors the court finds relevant. The fair value of the shares as determined by the court is binding on all holders of Minnesota Fund s VRDP Shares. A dissenter is entitled to judgment in cash for the amount by which the fair value of the shares as determined by the court, plus interest, exceeds the amount paid, if any. However, a dissenter shall not be liable to the Minnesota Fund for the amount, if any, by which the amount, if any, paid to the dissenter exceeds the fair value of the Minnesota Fund VRDP Shares as determined by the court, plus interest.

Costs; Fees; Expenses

The court shall determine the costs and expenses of the above proceeding, including the reasonable expenses and compensation of any appraisers appointed by the court, and shall assess those costs and expenses against the Minnesota Fund. However, the court may assess part or all of those costs and expenses against a dissenter whose action in demanding payment is found to be arbitrary, vexatious or not in good faith.

If the court finds that the Minnesota Fund has failed to comply substantially with Minnesota law, the court may assess all fees and expenses of any experts or attorneys as the court deems equitable. These fees and expenses may also be assessed against a person who has acted arbitrarily, vexatiously, or not in good faith in bringing the proceeding, and may be awarded to a party injured by those actions. The court may also award, in its discretion, fees and expenses to an attorney for the dissenters out of the amount awarded to the dissenters, if any.

Table of Contents

Material Federal Income Tax Consequences of the Reorganizations

As a condition to each Fund's obligation to consummate the Reorganizations, 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 its 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 Acquired 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 Acquired Fund, followed by the distribution to the Acquired Fund shareholders of all the Acquiring Fund shares received by the Acquired Fund in complete liquidation of the Acquired Fund will constitute a reorganization within the meaning of Section 368(a) of the Code, and the Acquiring Fund and the Acquired Fund will each be a party to a reorganization, within the meaning of Section 368(b) of the Code, with respect to such Reorganization.
2. No gain or loss will be recognized by the Acquiring Fund upon the receipt of substantially all of the assets of the Acquired Fund solely in exchange for Acquiring Fund shares and the assumption by the Acquiring Fund of substantially all of the liabilities of the Acquired Fund.
3. No gain or loss will be recognized by the Acquired Fund upon the transfer of substantially all of the Acquired 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 Acquired Fund or upon the distribution (whether actual or constructive) of all such Acquiring Fund shares to the Acquired Fund shareholders solely in exchange for such shareholders' shares of the Acquired Fund in complete liquidation of the Acquired Fund.
4. No gain or loss will be recognized by the Acquired Fund shareholders upon the exchange of their Acquired 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 Acquired 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 Acquired Fund shares exchanged therefor by such shareholder. The holding period of the Acquiring Fund shares received by each Acquired Fund shareholder (including any fractional Acquiring Fund common share to which a shareholder would be entitled) will include the period during which the Acquired Fund shares exchanged therefor were held by such shareholder, provided such Acquired Fund shares are held as capital assets at the time of the Reorganization.
6. The basis of the Acquired Fund's assets acquired by the Acquiring Fund will be the same as the basis of such assets to the Acquired Fund immediately before the Reorganization. The holding period of the assets of the Acquired Fund in the hands of the Acquiring Fund will include the period during which those assets were held by the Acquired Fund.

Table of Contents

In addition, Sidley Austin LLP, as special tax counsel to the Acquiring Fund, will deliver an opinion to the Acquiring Fund, subject to certain representations, assumptions and conditions, to the effect that the Acquiring Fund VRDP Shares issued in exchange for the VRDP Shares of the Acquired Funds will qualify as stock in the Acquiring Fund for federal income tax purposes.

No opinion will be expressed as to (1) the federal income tax consequences of payments to Acquired Fund shareholders who elect dissenters rights, (2) the effect of a Reorganization on (A) an Acquired Fund or the Acquiring Fund with respect to any asset as to which any unrealized gain or loss is required to be recognized for federal income tax purposes at the end of a taxable year (or on the termination thereof) under a mark-to-market system of accounting, (B) any Acquired Fund shareholder that is required to recognize unrealized gains and losses for U.S. federal income tax purposes under a mark-to-market system of accounting, or (C) an Acquired Fund or the Acquiring Fund with respect to any stock held in a passive foreign investment company as defined in Section 1297(a) of the Code or (3) any other federal tax issues (except those set forth above) and all state, local or foreign tax issues of any kind.

A shareholder who exercises and perfects dissenters rights of appraisal generally will recognize gain or loss equal to the difference between the amount of cash received and the shareholder's basis in the VRDP Shares surrendered. 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 surrendered is more than one year. The deductibility of capital losses is subject to limitations. If, however, the shareholder owns (or constructively owns under certain attribution rules contained in the Code) other shares of the same Acquired Fund that are exchanged for Acquiring Fund shares in a Reorganization or otherwise owns Acquiring Fund shares actually or constructively immediately after the Reorganizations, the cash received could be treated as having the effect of the distribution of a dividend for federal income tax purposes, in which case the shareholder may have dividend income up to the amount of the cash received. In such cases, shareholders should consult their tax advisers to determine the amount and character of the income recognized in connection with the Reorganizations. Any cash received as a result of the exercise of dissenters rights may be subject to backup withholding taxes.

Prior to the date of its Reorganization, each Acquired 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 its Reorganization. To the extent the distribution is attributable to ordinary taxable income or capital gains, such ordinary taxable income and capital gains will be allocated to common and preferred shareholders in accordance with each class' proportionate share of the total dividends paid by the Fund during the year. As a result, such distribution could cause a portion of the distributions received by preferred shareholders during the year to be taxable for federal income tax purposes. Additional distributions may be made if necessary.

After the Reorganizations, the combined fund's ability to use the Acquired Funds' 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, former shareholders of an Acquired Fund may pay federal income taxes sooner, or pay more federal income taxes, than they would have had the Reorganizations 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 Reorganizations and the amount of unrealized

Table of Contents

capital gains in the Funds at the time of the Reorganizations. As of August 31, 2011, the Funds had capital loss carryforwards as follows:

	Acquiring Fund	Premium Income	Premium Income 2	Dividend Advantage
Capital loss carryforwards	\$ 1,024,025	\$ 0	\$ 1,192,469	\$ 117,891

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

	Acquiring Fund	Premium Income	Premium Income 2	Dividend Advantage
Expiration Date:				
February 28, 2017	\$ 485,298	\$	\$	\$
February 28, 2018	\$ 530,894	\$	\$ 1,192,469	\$ 117,891
February 29, 2020	\$ 7,833	\$	\$	\$

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 an Acquired 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 Reorganizations when such income and gains are eventually distributed by the Acquiring Fund. As a result, shareholders of an Acquired Fund may receive a greater amount of taxable distributions than they would have had the Reorganizations not occurred.

This description of the federal income tax consequences of the Reorganizations 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 Reorganizations, 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 Reorganizations 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. Acquired Fund 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

Each 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 Acquired Fund's common shares and the preferred shares, voting as a single class, and by the affirmative vote of the holders of a majority (more than 50%) of the Acquired Fund's outstanding preferred shares, voting as a separate class. Each 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 voting as a separate class. In addition, the Acquiring Fund's common shareholders, voting separately, and the Acquiring Fund's common and preferred shareholders, voting together as a single class, are being asked to approve the

Table of Contents

issuance of additional common shares of the Acquiring Fund in connection with the Reorganizations. 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. Preferred shareholders are being solicited separately on the foregoing proposals through a separate proxy statement and not through this Joint Proxy Statement.

Abstentions and broker non-votes will have the same effect as a vote against the approval of the Agreement and Plan of 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 Reorganizations, it is possible that there may be insignificant adverse effects (such as where the asset coverage with respect to the shares of Acquiring Fund VRDP Shares issued pursuant to a Reorganization is slightly more or less than the asset coverage with respect to the shares of Acquired Fund VRDP Shares for which they are exchanged). Each Fund is seeking approval of the Agreement by the holders of that Fund's preferred shares.

The closing of the Reorganizations is contingent upon certain conditions being satisfied or waived. Shareholders of each Acquired Fund, voting separately, must approve the Reorganization of their Fund into the Acquiring Fund. The Acquiring Fund also must obtain the shareholder approvals described in this Joint Proxy Statement with respect to each of the Reorganizations in order for the Reorganizations to occur. Additionally, in order for the Reorganizations to occur, each Fund also must obtain certain consents and/or waivers from various third parties, including liquidity providers with respect to outstanding VRDP Shares. Because the closing of the Reorganizations is contingent on all of the Acquired Funds and the Acquiring Fund satisfying (or obtaining the waiver of) their respective closing conditions, it is possible your Fund's 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 Boards of the Funds may take such actions as they deem in the best interest of the Funds, including conducting additional solicitations with respect to the proposals or continuing to operate the Funds as stand-alone funds.

Description of Common Shares Issued by the Acquiring Fund; Comparison to Acquired Funds

As a general matter, the common shares of the Acquiring Fund and each Acquired Fund have equal voting rights and equal rights with respect to the payment of dividends and distribution of assets upon liquidation and have no preemptive, conversion or exchange rights or rights to cumulative voting. Furthermore, the provisions set forth in the of the declaration of trust of the Acquiring Fund, as amended (the Acquiring Fund Declaration of Trust), are substantially similar to the provisions of each Acquired Fund's declaration of trust or articles of incorporation, as applicable, and each contain, 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 .

Table of Contents

The Acquiring Fund's Declaration of Trust authorizes an unlimited amount of common shares, par value \$.01 per share. If the Reorganizations are approved, the Acquiring Fund will issue additional common shares at the Closing Date to the common shareholders of each Acquired Fund based on the relative aggregate per share net asset value of the Acquiring Fund and the net asset values of the assets of such Acquired Fund that are transferred in the Reorganization, in each case as of the Closing Date.

The terms of the Acquiring Fund common shares to be issued pursuant to the Reorganizations will be identical to the terms of the Acquiring Fund common shares that are then outstanding. All the 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 Comparison of Massachusetts Business Trusts and Minnesota Corporations.

Whenever VRDP Shares are outstanding, common shareholders will not be entitled to receive any distributions from the Fund unless all accumulated dividends on VRDP Shares have been paid, and unless asset coverage (as defined in the 1940 Act) with respect to VRDP Shares would be at least 200% after giving effect to the distributions.

Description of VRDP Shares

General

The terms of the VRDP Shares of the Acquiring Fund to be issued pursuant to the Reorganizations will be substantially identical, as of the time of the closing of the Reorganizations, to the outstanding VRDP Shares of the Acquired Fund for which they are exchanged. The aggregate liquidation preference of the Acquiring Fund VRDP Shares received in the Reorganization will equal the aggregate liquidation preference of the corresponding Acquired Fund VRDP Shares held immediately prior to the Reorganizations.

The outstanding VRDP Shares for each Fund have a 30-year mandatory redemption date, subject to earlier redemption or repurchase by the Fund, and pay an adjustable dividend rate set weekly by the remarketing agent. VRDP shareholders have the right to give notice on any business day to tender the securities for remarketing in seven days. VRDP Shares are also subject to a mandatory tender for remarketing upon the occurrence of certain events, such as non-payment of dividends by a Fund, among others. Should a remarketing be unsuccessful, the dividend rate will reset to a maximum rate as defined in the governing documents.

VRDP Shares have the benefit of an unconditional demand feature pursuant to a purchase agreement provided by a bank acting as liquidity provider to ensure full and timely repayment of the liquidation preference amount plus any accumulated and unpaid dividends to holders upon the occurrence of certain events. The agreement requires the liquidity provider to purchase all VRDP Shares tendered for sale that were not successfully remarketed. The liquidity provider must also purchase all outstanding VRDP Shares prior to termination of the purchase agreement, including by reason of the failure of the liquidity provider to maintain certain short-term ratings, if a Fund has not obtained an alternate purchase agreement before the termination date. VRDP Shares currently are rated by at least one NRSRO.

The purchase of VRDP Shares pursuant to the purchase agreement is unconditional and irrevocable, and as such the short-term ratings assigned to the VRDP Shares are directly linked to the

Table of Contents

short-term creditworthiness of the associated liquidity provider. Each liquidity provider entered into a purchase agreement with an initial term of 364 days to approximately two years, subject to periodic extension by agreement with the Fund.

Each holder of VRDP Shares should review the more detailed information concerning the terms of the VRDP Shares to be issued in the Reorganizations contained in the Memorandum, which forms a part of this Joint Proxy Statement, and the other documents incorporated by reference or otherwise summarized in this Joint Proxy Statement and in the Memorandum, including the information set forth in the sections Comparison of the Investment Objectives and Policies of the Acquiring Fund and the Acquired Funds below and Risk Factors in the Memorandum as well as each form of Statement Establishing and Fixing the Rights and Preferences of VRDP Shares of the Acquiring Fund attached as an appendix to the Memorandum.

Differences Among VRDP Series Following the Reorganizations

Following the Reorganizations, the Acquiring Fund will have four series of VRDP Shares outstanding (each, a VRDP Series or Series). Because the terms of each VRDP Series to be issued in the Reorganizations by the Acquiring Fund will be substantially identical to the respective Acquired Fund VRDP Series exchanged therefor, the four Acquiring Fund VRDP Series will reflect the various existing differences among the VRDP Series of the Acquired Funds and the Acquiring Fund, including different banks serving as liquidity provider for the different VRDP Series. Dividend rates may vary from Series to Series because, for example, the applicable remarketing agent may reset the rate for one Series at a different level from that set by the remarketing agent for a different Series, or the rate for one or more Series, but not all Series, must reset to the maximum rate (or a different level of maximum rate) depending on the terms of the applicable statement of preferences. Redemptions prior to the final mandatory redemption date for each Series may occur at different times and in different amounts from Series to Series due to differences in the respective statement of preferences for each Series. In the event the Acquiring Fund were to make a partial redemption of VRDP Shares, the redemption may not necessarily be effected pro rata among all VDRP Series then outstanding.

Each VRDP Series will have a different final mandatory redemption date, as summarized below:

Fund	Current VRDP Series Outstanding and Mandatory Redemption Date	Acquiring Fund VRDP Series To Be Outstanding Following the Reorganizations
Premium Income	VRDP Shares, Series 1 Final Mandatory Redemption Date: 3/1/2040	VRDP Shares, Series 3 Final Mandatory Redemption Date: 3/1/2040
Premium Income 2	VRDP Shares, Series 1 Final Mandatory Redemption Date: 12/1/2040	VRDP Shares, Series 4 Final Mandatory Redemption Date: 12/1/2040
Dividend Advantage	VRDP Shares, Series 1 Final Mandatory Redemption Date: 6/1/2041	VRDP Shares, Series 5 Final Mandatory Redemption Date: 6/1/2041
Acquiring Fund	VRDP Shares, Series 2 Final Mandatory Redemption Date: 6/1/2040	VRDP Shares, Series 2 Final Mandatory Redemption Date: 6/1/2040

Table of Contents

Following the Reorganizations, the bank that served as liquidity provider for an Acquired Fund's VRDP Series immediately prior to the Reorganizations will serve as liquidity provider for the new Series to be issued by the Acquiring Fund in exchange for such Acquired Fund's VRDP Series. Accordingly, not all VRDP Series will have the same bank serving as liquidity provider. While the Acquiring Fund and Premium Income VRDP Series currently have the same bank serving as the liquidity provider, Premium Income 2 and Dividend Advantage have different banks that serve as the liquidity provider. The initial term of the purchase agreement with the liquidity provider for each of the new VRDP Series is expected to be no less than the remaining term of the applicable purchase agreement with respect to the VRDP Shares of each Acquired Fund immediately prior to the Reorganizations.

Each purchase agreement has an expiration date (a Scheduled Termination Date), subject to periodic extension or replacement. There is no assurance that a liquidity provider will renew, or continue to renew, the purchase agreement or that a replacement liquidity provider will be appointed. Each purchase agreement provides for the renewal of the purchase obligation upon each Scheduled Termination Date for a minimum term of at least 364 days (or replaced with a purchase obligation with such minimum term), except that for Dividend Advantage, the minimum term for renewal or replacement is 180 days. If a liquidity provider does not renew the purchase agreement, all of the VRDP Shares of the relevant Series will be subject to mandatory purchase by the liquidity provider prior to the expiration of the purchase obligation.

Comparison of Massachusetts Business Trusts and Minnesota Corporations

The following description is based on relevant provisions of the Minnesota Business Corporation Act (the MBCA) and applicable Massachusetts law and each Fund's operative documents. This summary does not purport to be complete and we refer you to the MBCA, applicable Massachusetts law and each Fund's operative documents.

General

The Acquiring Fund and Dividend Advantage are each 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. 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.

Premium Income and Premium Income 2 are Minnesota corporations. A fund organized as a Minnesota corporation is governed both by the MBCA and the Minnesota corporation's articles of incorporation and bylaws. For a Minnesota corporation, unlike a Massachusetts business trust, the MBCA prescribes many aspects of corporate governance.

Table of Contents

Shareholders of a Minnesota corporation generally are shielded from personal liability for the corporation's debts or obligations. Shareholders of a Massachusetts business trust, on the other hand, 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 declarations of trust for the Acquiring Fund and Dividend Advantage contain such provisions.

Similarly, the trustees of a Massachusetts business trust are not afforded statutory protection from personal liability for the obligations of the trust. The directors of a Minnesota corporation, on the other hand, generally are shielded from personal liability for the corporation's acts or obligations by the MBCA. 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 Dividend Advantage contains such provisions.

Massachusetts Business Trusts

The Acquiring Fund and Dividend Advantage are each governed by its declaration of trust and by-laws. Under the 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, the 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. The following is a summary of some of the key provisions of the governing documents of the Acquiring Fund and Dividend Advantage (the "Massachusetts Funds").

Shareholder Voting. The declaration of trust of each Massachusetts 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 Massachusetts 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 Massachusetts 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.

Table of Contents

Election and Removal of Trustees. The declaration of trust of each Massachusetts 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. It also provides that vacancies on the Board may be filled by the remaining trustees, except when election by the shareholders is required under the 1940 Act. Trustees are then elected by a plurality vote of the shareholders. 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 Massachusetts 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 Massachusetts 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 Massachusetts 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.

Table of Contents

Minnesota Corporations

A Minnesota corporation is governed by the MBCA, its articles of incorporation and bylaws. Some of the key provisions of the MBCA and the articles of incorporation and bylaws of Premium Income and Premium Income 2 (the Minnesota Funds) are summarized below.

Shareholder Voting. Under the MBCA, a Minnesota corporation generally cannot dissolve, amend its articles of incorporation, sell or otherwise transfer all or substantially all of its property and assets outside the ordinary course of business, or engage in a statutory share exchange, merger or consolidation unless approved by a vote of shareholders. Depending on the circumstances and the articles of incorporation of the corporation, there may be various exceptions to these votes. Shareholders of Minnesota corporations are generally entitled to one vote per share and fractional votes for fractional shares held. The Minnesota Fund s articles of incorporation contain such provisions regarding fractional shares.

Election and Removal of Directors. Shareholders of a Minnesota corporation generally are entitled to elect and remove directors. Shareholders of the Minnesota Funds may elect directors at any meeting at which a quorum is present. The MBCA and bylaws provide that directors are elected by a plurality of votes validly cast at such election. The MBCA does not require a corporation to hold an annual meeting unless required by the articles of incorporation or bylaws. The Minnesota Funds bylaws state that annual meetings of shareholders are not required and that a special meeting of shareholders may be called by shareholders holding 10% or more of the shares entitled to vote on the matters to be presented at the meeting. The articles of incorporation provide that a director may be removed from office only for cause, and then by a vote of the shareholders holding 66 2/3% of the shares entitled to vote at an election of directors.

Amendments to the Articles of Incorporation. Under the MBCA, shareholders of corporations generally are entitled to vote on amendments to the articles of incorporation.

Issuance of Shares. The board of directors of a Minnesota corporation has the power to authorize the issuance of shares. If so provided in the articles of incorporation (and the articles of incorporation of each Minnesota Fund do so provide), the board of directors may authorize the issuance of shares in more than one class or series, and prior to issuance of shares of each class or series, the board of directors must set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series.

Shareholder, Director and Officer Liability. Under Minnesota law, shareholders generally are not personally liable for debts or obligations of a corporation. Minnesota law provides that a director s personal liability to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director may be eliminated or limited in the articles of incorporation, except for a director s breach of the duty of loyalty, for acts or omissions not in good faith or that involve an intentional or knowing violation of law, or for any transaction from which the director derived an improper personal benefit. The articles of incorporation of each Minnesota Fund provide such a limitation of director liability. Minnesota law provides that, unless prohibited by a corporation s articles of incorporation or bylaws, a corporation must indemnify and advance expenses to its directors for acts and omissions in their official capacity, subject to certain exceptions, and the articles of incorporation of each Minnesota Fund do not prohibit such indemnification or advances. The indemnification provisions and the

Table of Contents

limitation on liability are both subject to any limitations of the 1940 Act, which generally provides that no director or officer shall be protected from liability to the corporation or its shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office. The provisions governing the advance of expenses are subject to applicable requirements of the 1940 Act or rules thereunder.

Preemptive Rights. Pursuant to the Minnesota Fund's articles of incorporation, shareholders of Premium Income and Premium Income 2 have no preemptive rights.

Dissenters' Right of Appraisal. Under Minnesota Law, shareholders are generally entitled to assert dissenters' rights in connection with certain amendments to the articles of incorporation, asset sales and reorganizations and obtain payment of the fair value of their shares, provided that they comply with the requirements of Minnesota law. These rights, however, are subject to certain exceptions under the MBCA, including, in the case of asset sales and reorganizations, if the shares to which the dissenters' rights relate and the shares, if any, that a shareholder is to receive are traded on an exchange.

Derivative Actions. Under Minnesota law, applicable case law at the time of a particular derivative action will establish any requirements or limitations with respect to shareholder derivative actions.

The foregoing is only a summary of certain rights of shareholders under the governing documents of the Funds and under applicable state law, and is not a complete description of provisions contained in those sources. Shareholders should refer to the provisions of those documents and state law directly for a more thorough description.

D. ADDITIONAL INFORMATION ABOUT THE INVESTMENT POLICIES

Comparison of the Investment Objectives and Policies of the Acquiring Fund and the Acquired Funds

General

The Acquiring Fund and Acquired Funds have similar (but not identical) investment objectives. The Acquiring Fund's investment objective is to provide current income exempt from regular federal income tax, the federal alternative minimum tax applicable to individuals (AMT) and California income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund's Adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued. Each Acquired Fund's investment objectives generally are to provide current income exempt from regular federal and California income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Adviser believes are underrated or undervalued or that represent municipal market sectors that are 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 the holders of a majority of the outstanding preferred shares voting as a separate class. For purposes of the Funds' objectives, policies and investment strategies, municipal bonds and municipal obligations are treated as municipal securities. Underrated municipal securities are those municipal securities whose ratings do not, in the Adviser's or sub-adviser's opinion, reflect their true value. They may be underrated because of the time that has

Table of Contents

elapsed since their last ratings, or because rating agencies have not fully taken into account positive factors, or for other reasons. Undervalued municipal securities are those securities that, in the Adviser's or sub-adviser's opinion, are worth more than their market value. They may be undervalued because there is a temporary excess of supply in that particular sector (such as hospital bonds, or bonds of a particular municipal issuer). The Adviser or sub-adviser may buy such a security even if the value of that security is consistent with the value of other securities in that sector. Municipal securities also may be undervalued because there has been a general decline in the market price of municipal securities for reasons that do not apply to the particular municipal securities that the Adviser or sub-adviser considers undervalued. The Adviser (or sub-adviser) believes that the prices of these municipal securities should ultimately reflect their true value.

Each Fund attempts to increase its portfolio value relative to the municipal bond market by prudent selection of municipal bonds regardless of the direction the market may move. There can be no assurance that a Fund's attempt to increase its portfolio value relative to the municipal bond market will succeed. To the extent that it does succeed, however, such success would increase the amount of net capital gains or reduce the amount of net capital losses that a Fund would otherwise have realized. While this incremental increase in net realized gains due to successful value investing, if any, is expected to be modest over time, it would tend to result in the distribution, over time, of a modestly greater amount of taxable capital gains to common shareholders and preferred shareholders. See Additional Information About the Funds' Federal Income Tax Matters Associated with Investment in the Funds.

Investment Policies

The Acquiring Fund and Acquired Funds have similar (but not identical) investment policies. Under normal circumstances, each Fund will invest at least 80% of its net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) or any preferred shares outstanding (Managed Assets), in municipal securities and other related investments the income from which is exempt from regular federal and California income taxes and are covered by insurance guaranteeing the timely payment of principal and interest thereon. Inverse floaters, whose underlying bonds are covered by insurance guaranteeing the timely payment of principal and interest thereon, are included for purposes of determining compliance with the above-referenced 80% test with respect to each Fund. The Acquired Funds do not have any policy regarding investments in securities subject to the federal AMT applicable to individuals, and may have substantial holdings of securities subject to such tax, while the Acquiring Fund, as a non-fundamental policy, invests at least 80% of its Managed Assets in municipal securities and other related investments the income from which is exempt from federal AMT.

Under normal circumstances, the municipal securities in which each Fund invests will be, at the time of purchase, (i) rated BBB/Baa or better by a nationally recognized statistical rating organization (NRSRO) or covered by insurance from insurers with a claims-paying ability rated BBB/Baa or better by an NRSRO; (ii) unrated, but judged to be of comparable quality by the Investment Adviser; or (iii) backed by an escrow or trust account containing sufficient U.S. Government or U.S. Government agency securities to ensure timely payment of principal and interest.

The foregoing credit quality policy applies only at the time a security is purchased, and a Fund is not required to dispose of a security in the event that a rating agency subsequently downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, the Adviser or sub-adviser may consider such factors as its assessment of the credit

Table of Contents

quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other rating agencies. See Proposal No. 2 Additional Information About the Investment Policies Municipal Securities below for a general description of the economic and credit characteristics of municipal securities.

Each Fund may enter into derivative instruments to achieve its investment objectives, enhance return, hedge certain risks of its investments in fixed income securities or as a substitute for a position in the underlying asset. Such instruments include financial futures contracts, swap contracts (including credit default swaps and interest rate 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 future contracts or related options.

Each Fund may invest up to 15% of its net 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 a 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 net asset value if the underlying municipal bond increases in value, but will also experience a correspondingly larger decline in its common net asset value if the underlying bond declines in value. Each Fund may borrow for temporary or emergency purposes, including to pay dividends, repurchase its shares, or settle portfolio transactions. Each Fund may also invest in securities of other open- or closed-end investment companies that invest primarily in municipal bonds of the types in which the Fund may invest directly. See Proposal No. 2 Additional Information About the Investment Policies Other Investment Companies.

The Acquiring Fund and Dividend Advantage are non-diversified funds, while Premium Income and Premium Income 2 are diversified funds. As a fundamental investment policy designed to limit investment risk and maintain portfolio diversification, each of the Acquiring Fund and Dividend Advantage may not invest more than 5% of its total assets in securities of any one issuer (other than obligations of the U.S. Government and its agencies), if as a result more than 5% of its total assets would then be invested in securities of any one issuer, provided that, with respect to 50% of the Fund's assets, the Fund may invest up to 25% of its assets in the securities of any one issuer.

Certain of the Acquired Funds are subject to fundamental policies that do not apply to or are different from the Acquiring Fund. In particular, unlike the Acquiring Fund, each of Premium Income and Premium Income 2 may not:

- 1) pledge, mortgage or hypothecate its assets, except that, to secure borrowings permitted by the Fund's fundamental investment policy relating to borrowing for temporary or emergency purposes or for the repurchase of its shares, it may pledge securities having a market value at the time of pledge not exceeding 20% of the value of the Fund's total assets;
- 2) invest more than 10% of its total assets in repurchase agreements maturing in more than seven days; and

Table of Contents

- 3) purchase or retain the securities of any issuer other than the securities of the Fund if, to the Fund's knowledge, those directors of the Fund, or those officers and directors of the Adviser, who individually own beneficially more than 1/2 of 1% of the outstanding securities of such issuer, together own beneficially more than 5% of such outstanding securities.

During temporary defensive periods and in order to keep the Fund's cash fully invested, each Fund may invest up to 100% of its net assets in short-term investments including high quality, short-term securities that may be either tax exempt or taxable. 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.

Portfolio Investments

As used in this Joint Proxy Statement, the term "municipal securities" includes municipal securities with relatively short-term maturities. Some of these short-term securities may be variable or floating rate securities. The Funds, however, emphasize investments in municipal securities with long- or intermediate-term maturities. The Funds buy municipal securities with different maturities and intend to maintain an average portfolio maturity of 15 to 30 years, although this may be shortened depending on market conditions. If the long-term municipal security market is unstable, a Fund may temporarily invest up to 100% of its assets in temporary investments. Temporary investments are high-quality, generally uninsured, short-term municipal securities that may either be tax-exempt or taxable. A Fund will buy taxable temporary investments only if suitable tax-exempt temporary investments are not available at reasonable prices and yields. The Funds will invest only in taxable temporary securities that are U.S. Government securities or corporate debt securities rated within the highest grade by Moody's, S&P or Fitch, and that mature within one year from the date of purchase or carry a variable or floating rate of interest. Each Fund's policies on securities ratings only apply when a Fund buys a security, and a Fund is not required to sell securities that have been downgraded. Each Fund also may invest in taxable temporary investments that are certificates of deposit from U.S. banks with assets of at least \$1 billion, or repurchase agreements. Each Fund seeks to allocate taxable income on temporary investments, if any, proportionately between common shares and preferred shares, based on the percentage of total dividends distributed to each class for that year.

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 and California income tax. Municipal securities are generally debt obligations issued by state and local governmental entities and may be issued by U.S. territories to finance or refinance public projects such as roads, schools, and water supply systems. Municipal securities may also be issued 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

Table of Contents

mortgage payments. Municipal securities may also be issued to finance projects on a short-term interim basis, anticipating repayment with the proceeds on long-term debt. Municipal securities may be issued and purchased 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 may increase the effective leverage of a Fund.

The municipal securities in which the Funds invest are generally issued by the State of California, a municipality of California, or a political subdivision of either, 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 and California income taxes, although the interest may be subject to the federal alternative minimum tax and the Funds may invest in municipal securities issued by U.S. territories (such as Puerto Rico or Guam) that are exempt from regular federal and California income taxes.

Yields on municipal securities depend on many factors, including the condition of the general money market and the municipal security market, the size of a particular offering, and the maturity and rating of a particular municipal security. Moody's, S&P's and Fitch's ratings represent their opinions of the quality of a particular municipal security, but these ratings are general and are not absolute quality standards. Therefore, municipal securities with the same maturity, coupon, and rating may have different yields, while municipal securities with the same maturity and coupon and different ratings may have the same yield. The market value of municipal securities will vary with changes in interest rates and in the ability of their issuers to make interest and principal payments.

Obligations of municipal security issuers are subject to bankruptcy, insolvency and other laws affecting the rights and remedies of creditors. These obligations also may be subject to future federal or state laws or referenda that extend the time to payment of interest and/or principal, or that constrain the enforcement of these obligations or the power of municipalities to levy taxes. Legislation or other conditions may materially affect the power of a municipal security issuer to pay interest and/or principal when due.

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

Table of Contents

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 participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. In order to reduce this risk, the 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

Table of Contents

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.

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 bond 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 inverse floaters that are issued by the special purpose trust, and can exceed three times for more highly leveraged trusts. 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 is generally more volatile than that of fixed rate bonds. The market price of inverse floating rate securities is generally more volatile than the underlying bonds due to the leveraging effect of this ownership structure. These securities generally will underperform the market of fixed rate bonds in a rising interest rate environment (*i.e.*, when bond values are falling), but

Table of Contents

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 whose sponsors have recourse to the Fund pursuant to a separate shortfall and forbearance agreement. 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, for the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate securities issued by the trust. A Fund will enter into such a recourse agreement (i) when the liquidity provider with respect to the floating rate securities issued by the special purpose trust requires such a recourse agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event that the municipal obligation held in the trust has declined in value. In an instance where a Fund has entered such a recourse agreement, the Fund may suffer a loss that exceeds the amount of its original investment in the inverse floating rate securities; such loss could be as great as that original investment amount plus the face amount of the floating rate securities issued by the trust.

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.

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

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 securities 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 bond deposited in the trust and the application of the proceeds to pay off the floating rate securities. 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 securities.

Special Taxing Districts. Special taxing districts are organized to plan and finance infrastructure developments to induce residential, commercial and industrial growth and redevelopment. The bond financing methods such as tax increment finance, tax assessment, special services district and Mello-Roos bonds, are generally payable solely from taxes or other revenues attributable to the specific projects financed by the bonds without recourse to the credit or taxing power of related or overlapping municipalities. They often are exposed to real estate development-related risks and can have more taxpayer concentration risk than general tax-supported bonds, such as general obligation bonds.

Table of Contents

Further, the fees, special taxes, or tax allocations and other revenues that are established to secure such financings are generally limited as to the rate or amount that may be levied or assessed and are not subject to increase pursuant to rate covenants or municipal or corporate guarantees. The bonds could default if development failed to progress as anticipated or if larger taxpayers failed to pay the assessments, fees and taxes as provided in the financing plans of the districts.

When-Issued and Delayed-Delivery Transactions

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 than bonds that pay interest currently or in cash. 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, to make income distributions to its shareholders.

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.

Table of Contents***Derivatives***

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. In particular, a Fund may 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.

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. 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

Table of Contents

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.

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

(ACQUIRING FUND SHAREHOLDERS ONLY)

In connection with the proposed Reorganizations, the Acquiring Fund will issue additional Acquiring Fund common shares and, subject to notice of issuance, list such shares on the NYSE. The Acquiring Fund will acquire substantially all of the assets of each Acquired Fund in exchange for newly issued Acquiring Fund common shares and Acquiring Fund VRDP Shares and the assumption of substantially all of the liabilities of each Acquired Fund. Each Acquired Fund will distribute Acquiring Fund common shares to its common shareholders and Acquiring Fund VRDP 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 Reorganizations 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 an Acquired Fund in each Reorganization will equal the aggregate net asset value of the Acquired Fund's common shares outstanding immediately prior to such Reorganization. Prior to the closing of the Reorganizations, the net asset value of each Acquired 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 an Acquired Fund's shareholders and, in lieu of such fractional shares, an Acquired 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 Acquiring Fund VRDP Shares received in each Reorganization will equal the aggregate liquidation preference of the Acquired Fund's VRDP Shares held immediately prior to the Reorganization. The Reorganizations will result in no reduction in net asset value of the Acquiring Fund's common shares, other than to

Table of Contents

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 Reorganizations. 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.

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 rules and the statement of preferences for the Acquiring Fund's VRDP Shares require that the Acquiring Fund's common shareholders, voting separately, and the Acquiring Fund's common and preferred shareholders, voting together, approve the issuance of the Acquiring Fund common shares to be issued in connection with the Reorganizations.

Shareholder approval of the issuance of additional Acquiring Fund common shares 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 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 Reorganizations.

ADDITIONAL INFORMATION ABOUT THE FUNDS

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 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 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 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

Table of Contents

(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 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 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 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 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.

The provisions of the Acquiring Fund 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

Table of Contents

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 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 Declaration of Trust on file with the SEC for the full text of these provisions.

Repurchase of Common Shares; Conversion to Open-End Fund

Each Fund is a closed-end management investment company, and as such its shareholders do not have the right to cause the Fund to redeem their common shares. Instead, the common shares of each 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, each 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 Fund to an open-end investment company. Neither the Acquiring Fund nor any of the Acquired Funds can assure you that its 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 a Fund's VRDP Shares are outstanding, the Fund may not purchase, redeem or otherwise acquire any of its common shares unless (1) all accumulated but unpaid VRDP 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 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 VRDP Shares. Any service fees incurred in connection with any tender offer made by the Fund will be borne by the Fund and will not reduce the stated consideration to be paid to tendering shareholders.

If a Fund converted to an open-end investment company, it would be required to redeem all its preferred shares, including VRDP 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.

Table of Contents

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 a 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 a Fund's common shares should trade at a discount, the Board may determine that, in the interest of the Fund, no action should be taken.

Custodian, Transfer Agent, Dividend Disbursing Agent, Redemption Agent and Remarketing Agents

The custodian of the assets of each Fund is State Street Bank and Trust Company, One Lincoln Street, Boston, Massachusetts 02111 (State Street). The custodian performs custodial, fund accounting and portfolio accounting services and also serves as each Fund's transfer, shareholder services and dividend paying agent with respect to each Fund's common shares.

The tender and paying agent with respect to each Fund's VRDP Shares is The Bank of New York Mellon, Corporate Trust Division, Dealing and Trading Group, 101 Barclay Street, Floor 7W, New York, N.Y. 10286 (the Tender and Paying Agent). The Tender and Paying Agent acts as each Fund's tender agent, transfer agent and registrar, dividend disbursing agent, paying agent and redemption price disbursing agent with respect to the VRDP Shares.

The remarketing agent for Premium Income and Dividend Advantage is Morgan Stanley & Co LLC, 1585 Broadway, New York, New York 10036 (Morgan Stanley). The remarketing agent for Premium Income 2 and the Acquiring Fund is Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013 (Citigroup). It is expected that the Acquiring Fund will enter into a remarketing agreement with each of Citigroup and Morgan Stanley such that Citigroup will continue to serve as the remarketing agent with respect to the new series of Acquiring Fund VRDP Shares to be issued in exchange for Premium Income 2 VRDP Shares and Morgan Stanley will continue to serve as the remarketing agent with respect to the two new series of Acquiring Fund VRDP Shares to be issued in exchange for Premium Income and Dividend Advantage VRDP Shares. Citigroup will continue to serve as the remarketing agent for the series of Acquiring Fund VRDP Shares presently outstanding.

Federal Income Tax Matters Associated with Investment in the Funds

The following information is meant as a general summary of certain federal income tax matters for U.S. shareholders. Please also see Material Income Tax Considerations in the Memorandum for additional information with respect to federal income tax matters associated with an investment in VRDP Shares. 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 Funds.

Each 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, each 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, each Fund is not expected to be subject to federal income tax on the income and gains it distributes to its shareholders. The Funds primarily invest in municipal securities issued by California, its cities and local authorities. Thus, substantially all of a 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.

Table of Contents

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 a Fund receives income from such municipal obligations, a portion of the dividends paid by the 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. Each Fund will annually provide a report indicating the percentage of the 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 such municipal obligations.

On September 12, 2011, President Obama submitted to Congress the American Jobs Act of 2011 (the Jobs Act). If enacted in its proposed form, the Jobs Act generally would limit the exclusion from gross income of tax-exempt interest (which includes exempt-interest dividends received from a Fund) for individuals whose adjusted gross income for federal income tax purposes exceeds certain thresholds for taxable years beginning on or after January 1, 2013 in order to provide a tax benefit not greater than 28% of such interest. Such proposal could affect the value of the municipal bonds owned by a Fund. The likelihood of the Jobs Act being enacted in the form introduced or in some other form cannot be predicted. Shareholders should consult their own tax advisers regarding the potential consequences of the Jobs Act on their investment in a Fund.

In addition to exempt-interest dividends, a 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%. Absent further legislation, the maximum 15% rate on long-term capital gains will cease to apply to taxable years beginning after December 31, 2012. Each 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, each Fund will not be subject to federal income tax in any taxable year provided that it meets certain distribution requirements. Each Fund may retain for investment some (or all) of its net capital gain. If a 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 a 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 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 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.

Table of Contents

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, each Fund designates dividends made with respect to the common shares and the 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 Fund during the year.

Dividends declared by a Fund to shareholders of record in October, November or December and paid during the following January may 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 non-corporate taxpayers, however, long-term capital gains are currently taxed at a maximum federal income tax rate of 15%, while short-term capital gains and other ordinary income are currently taxed at ordinary income rates. As noted above, absent further legislation, the maximum rates applicable to long-term capital gains will cease to apply to 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 were acquired after December 22, 2010 and 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. 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 distributions received by the shareholder. Any loss realized on a sale or exchange of shares of a Fund will be disallowed to the extent those shares of the Fund are replaced by other substantially identical shares of the 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 of the Fund will be adjusted to reflect the disallowed loss.

Any interest on indebtedness incurred or continued to purchase or carry a 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 a Fund.

If a 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

Table of Contents

Fund elects to include market discount in income currently), the 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, a 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), including such accrued income, to qualify as a RIC and to avoid federal income and excise taxes. Therefore, a 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 Funds 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 a 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.

As with all investment companies, each Fund may be required to withhold U.S. federal income tax at the current rate of 28% of all distributions (including exempt-interest dividends) and redemption proceeds payable to a shareholder if the shareholder fails to provide the Fund with his or her correct taxpayer identification number or to make required certifications, or if the shareholder has been notified by the IRS 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

Each 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 a 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 such 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 such 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 such 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 Proceedings

Thirty-three Nuveen leveraged closed-end funds (including the Acquiring Fund) have each received a demand letter from a law firm on behalf of purported holders of the fund's common shares. Each letter alleged that the Adviser and the fund's officers and Board breached their fiduciary duties by favoring the interests of holders of the fund's auction rate preferred shares (ARPS) over those of its

Table of Contents

common shareholders in connection with each fund's ARPS refinancing and/or redemption activities, and demanded that the Board take action to remedy those alleged breaches. In response to the demand letters, each fund's Board established a Demand Committee of certain of its disinterested and independent members to investigate the claims. The Demand Committee, for each fund, retained independent counsel to assist it in conducting its investigation. Based upon its investigation, the Demand Committee, for each fund, found that it was not in the best interests of each fund or its shareholders to take the actions suggested in the demand letters, and recommended that the full Board reject the demands made in the demand letters. After reviewing the findings and recommendation of each Demand Committee, the full Board of each fund unanimously adopted the Demand Committee's recommendation and each of the thirty-three funds has since rejected the demands made in the demand letters.

Subsequently, all thirty-three funds that received demand letters (including the Acquiring Fund) and one fund that did not receive a demand letter were named as nominal defendants in four putative shareholder derivative action complaints filed in the Circuit Court of Cook County, Illinois, Chancery Division (the Cook County Chancery Court). The four putative shareholder actions have since been consolidated into one shareholder derivative action complaint captioned *Martin Saftier, et al., v. Nuveen Asset Management, et al.*, filed with the Cook County Chancery Court on February 18, 2011 (the Complaint). The Complaint was filed on behalf of purported holders of each fund's common shares and also names the Adviser as a defendant, together with current and former officers and a Board member of each of the funds (together with the nominal defendants, collectively, the Defendants). The Complaint contains the same basic allegations contained in the demand letters. The suit seeks a declaration that the Defendants have breached their fiduciary duties, an order directing the Defendants not to redeem any ARPS at their liquidation value using fund assets, indeterminate monetary damages in favor of the funds and an award of plaintiffs' costs and disbursements in pursuing the action. The plaintiffs filed a motion for preliminary injunction to stop the funds subject to the lawsuits from redeeming additional ARPS during the pendency of the lawsuits. The court rejected that motion on November 23, 2010. On April 29, 2011, each of the Defendants filed a motion to dismiss the Complaint. On December 16, 2011, the court granted the Defendants motion and dismissed the plaintiff's Complaint with prejudice. The plaintiffs have 30 days from the court order to file an appeal. It is not known whether the plaintiffs intend to file an appeal.

The Acquired Funds are not named as parties in the Complaint; however, it is possible that plaintiffs may seek to add one or more of the Acquired Funds as nominal defendants and that the Adviser, in its capacity as investment adviser to the Acquired Funds, together with current and former officers and Board Members of the Funds, in such capacities, may be added as defendants.

The Adviser believes that the Complaint is without merit, and intends to defend vigorously against these charges. The Adviser believes that the Complaint (or one or more amended Complaints that might include the Acquiring Fund) will not have a material adverse effect on the ability of the Adviser to perform its obligations under its investment advisory contract with any of the Nuveen leveraged closed-end funds (including the Funds).

In March 2011 four additional Nuveen leveraged closed-end funds (not including the Funds) each received demand letters from a law firm on behalf of purported holders of the fund's common shares. Each letter contains substantially the same allegations stated in the demand letters described above. In response to these demand letters, the previously formed Demand Committee, with the assistance of independent counsel, conducted an investigation in the same manner described above.

Table of Contents

Based on its investigation, the Demand Committee found that it was not in the best interests of each fund or its shareholders to take the actions suggested in the demand letters, and recommended that the full Board reject the demands made in the demand letters. After reviewing the findings and recommendation of the Demand Committee, the full Board of each fund unanimously adopted the Demand Committee's recommendation.

PROPOSAL NO. 4 APPROVAL OF THE ELIMINATION OF FUNDAMENTAL INVESTMENT POLICIES AND APPROVAL OF NEW FUNDAMENTAL POLICIES FOR EACH FUND RELATING TO INVESTMENTS IN INSURED MUNICIPAL SECURITIES

(SHAREHOLDERS OF EACH FUND)

The Funds have adopted certain fundamental investment policies, as described below (together, the Current Fundamental 80% Policies, and each a Current Fundamental 80% Policy), that cannot be changed without shareholder approval. The Current Fundamental 80% Policies reflected industry conditions present in the municipal bond market at the time such Policies were adopted by the Funds. In the aftermath of the 2008 financial crisis and the downgrade of most bond insurers, bond insurance has lost its economic value and most insured municipal bonds now trade based upon their underlying creditworthiness. The resulting steep decline in the use of bond insurance has led to lack of new issue supply, and various efforts to re-launch the market for bond insurance to date have not succeeded. This has resulted in a more limited universe of potential investments for the Funds.

In response to the above conditions, the Adviser has proposed, and the Board of each Fund has approved, modifying each Fund's Current Fundamental 80% Policy, subject to shareholder approval of the elimination of the Current Fundamental 80% Policy and the approval of a new fundamental 80% policy, as described below (the New Fundamental 80% Policy). The New Fundamental 80% Policy is intended to give each Fund additional investment flexibility and to improve its ability to pursue investment opportunities.

If shareholders approve the proposal, the Funds will continue to invest their assets consistent with their investment objectives to provide current income exempt from regular federal income tax, the alternative minimum tax applicable to individuals (with respect to the Acquiring Fund) and California income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund's investment adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued. In addition, each Fund will continue to invest at least 80% of its assets in municipal securities and other related investments that pay interest exempt from regular federal and California income taxes as a fundamental policy, and will continue to emphasize investment grade quality municipal securities.

If approved, the New Fundamental 80% Policy will be put into effect for each Fund promptly after the Annual Meeting. With respect to the Acquiring Fund, if the proposal is approved, the Board will change the name of the Acquiring Fund to Nuveen California AMT-Free Municipal Income Fund. With respect to an Acquired Fund, if the proposal is approved but the Reorganizations are not approved, the Board will change the name of the Fund to remove the word Insured. If the proposal is approved and the Reorganizations also are approved, the Acquired Fund will nonetheless implement the new policy between the Annual Meeting date and the closing of the Reorganizations, but will not change the name of the Fund. Accordingly, during this transition period, the Fund may have less than 80% of its assets invested in insured municipal securities.

Table of Contents

In order to implement the New Fundamental 80% Policy, each Fund must eliminate its Current Fundamental 80% Policy, which change requires your approval. In particular, shareholders must first approve the elimination of their Fund's Current Fundamental 80% Policy as well as the implementation of the New Fundamental 80% Policy.

The Board has unanimously approved, and unanimously recommends that shareholders of each Fund approve, the elimination of the Current Fundamental 80% Policy of each Fund and the adoption of the New Fundamental 80% Policy, described below:

- (a) **Elimination of Current Fundamental 80% Policy:** The Current Fundamental 80% Policy, which is proposed to be eliminated, provides that with respect to each Fund:

Under normal circumstances, the Fund will invest at least 80% of its net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) or preferred shares outstanding (Managed Assets), in municipal securities and other related investments that pay interest exempt from federal and California income taxes (municipal securities) and are covered by insurance guaranteeing the timely payment of principal and interest thereon.

- (b) **Approval of New Fundamental 80% Policy:** It is proposed that each Fund adopt a New Fundamental 80% Policy. The adoption of the following New Fundamental 80% Policy for each Fund is contingent on shareholder approval of the elimination of that Fund's Current Fundamental 80% Policy, as reflected in (a) above. The proposed policy provides that with respect to each Fund:

Under normal circumstances, the Fund will invest at least 80% of its net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) or preferred shares outstanding (Managed Assets), in municipal securities and other related investments that pay interest exempt from federal and California income taxes (municipal securities).

If shareholders approve the proposal, each Fund will adopt a non-fundamental policy to invest under normal circumstances at least 80% of its Managed Assets in investment grade securities that, at the time of investment, are rated within the four highest grades (Baa or BBB or better) by at least one NRSRO or are unrated but judged to be of comparable quality by the Fund's Adviser. The non-fundamental policy further provides that each Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by the Fund's Adviser, provided that no more than 10% of the Fund's Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by the Fund's Adviser. In addition, the Acquiring Fund will continue its non-fundamental policy to invest, under normal circumstances, at least 80% of its assets in municipal securities and other related investments that pay interest exempt from federal AMT.

The new non-fundamental investment policy with respect to investment grade securities will permit each Fund to invest up to 20% of its Managed Assets in non-investment grade securities, commonly known as junk bonds. Non-investment grade securities generally are less liquid, have more volatile prices, and have greater credit risk than investment grade securities. In particular, non-investment grade securities may be more susceptible to real or perceived adverse economic

Table of Contents

conditions than investment grade securities. In addition, the secondary trading market may be less liquid, meaning that it may be more difficult to sell or buy a security at a favorable price or time.

For each Fund, approval of the elimination of the Current Fundamental 80% Policy and approval of the New Fundamental 80% Policy require the affirmative vote of the holders of a majority of the Fund's common shares and preferred shares, voting as a single class, and of the preferred shares, voting as a separate class, which is defined as (i) 67% or more of the voting securities present at the Annual Meeting, if the holders of more than 50% of the outstanding voting securities are present or represented by proxy; or (ii) more than 50% of the outstanding voting securities, whichever is less. Broker non-votes and abstentions will have the same effect as shares voted against the proposal. 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. In addition, as required by the terms of the VRDP Shares, each Fund will need to obtain certain consents from rating agencies and the liquidity provider with respect to its VRDP Shares in order to implement the New Fundamental 80% Policy if approved.

To the extent an Acquired Fund's shareholders do not approve the New Fundamental 80% Policy but the Reorganizations are approved, it is possible the Acquired Fund's shareholders will be subject to the New Fundamental 80% Policy following the completion of the Reorganizations (as shareholders of the Acquiring Fund) even though they did not vote to approve the New Fundamental 80% Policy. Conversely, if the Acquiring Fund's shareholders do not approve the New Fundamental 80% Policy but the Reorganizations are approved, it is possible that shareholders of an Acquired Fund that approved the New Fundamental 80% Policy for its Fund will not benefit from the New Fundamental 80% Policy following the completion of the Reorganizations.

Board Recommendation

The Board believes that eliminating the Current Fundamental 80% Policies and adopting the New Fundamental 80% Policies gives the Adviser flexibility to rapidly respond to continuing developments in the municipal market and would enhance the portfolio managers' ability to meet each Fund's investment objectives. In addition, the Board believes that the proposed changes will create consistent investment policies for all Nuveen municipal bond funds and will help to promote operational efficiencies.

The Board recommends that shareholders of each Fund vote to approve the elimination of each Current Fundamental 80% Policy and vote to approve each New Fundamental 80% Policy.

PROPOSAL NO. 5 ELIMINATION OF FUNDAMENTAL POLICY AND APPROVAL OF NEW FUNDAMENTAL POLICY RELATING TO EACH FUND'S ABILITY TO MAKE LOANS (SHAREHOLDERS OF EACH FUND)

Each Fund has adopted a fundamental investment policy relating to the Fund's ability to make loans (together, the Current Fundamental Loan Policies, and each, a Current Fundamental Loan Policy), that can be changed only by shareholder vote. The Current Fundamental Loan Policy adopted by each Fund reflects industry and other market conditions present at the time of the inception of each Fund.

Table of Contents

As a general matter, Nuveen's municipal closed-end funds are seeking to adopt a uniform set of investment policies. Investment policies currently vary across otherwise-similar Nuveen municipal closed-end funds, reflecting evolving markets and guidelines as the different funds were launched over the past 20 years. As part of a continuing broader "best practices" initiative begun approximately three years ago, all Nuveen municipal closed-end funds, including the Funds, are seeking to adopt a uniform set of investment policies that reflect municipal market and regulatory developments over time.

The proposed new fundamental policy with respect to loans (the "New Fundamental Loan Policy") would permit each Fund to make loans to the extent permitted by securities laws. Among other things, this change is intended to provide each Fund the flexibility to make loans in circumstances where a municipal issuer is in distress, if the Adviser believes that doing so would both:

facilitate a timely workout of the issuer's situation in a manner that benefits the Fund; and

be or represent the best choice for reducing the likelihood or severity of loss on the Fund's investment.

Conforming and updating these investment policies is intended to benefit common shareholders by increasing portfolio manager efficiency and flexibility to take advantage of a wide range of appropriate opportunities in the municipal bond markets in pursuit of the Funds' investment objectives. Providing a Fund with the option of making loans to help facilitate a timely workout of a distressed issuer's situation merely provides the Fund with an additional tool to help preserve shareholder value and should not be viewed as a commentary on the state of the municipal bond market or as indicative of an immediate need or desire to make a loan to an issuer facing a credit workout situation.

In order to implement the New Fundamental Loan Policy, each Fund must eliminate its Current Fundamental Loan Policy, which change requires your approval. In particular, shareholders must first approve the elimination of their Fund's Current Fundamental Loan Policy as well as the implementation of the New Fundamental Loan Policy.

The primary purposes of these changes are to provide the Funds with increased flexibility in diversifying portfolio risks and optimizing returns on current investments in order to pursue the preservation of and possible growth of capital which, if successful, will help to sustain and build net asset value, and to create consistent investment policies for all Nuveen municipal bond funds to promote operational efficiencies.

The Board has unanimously approved, and unanimously recommends, the approval by shareholders of each Fund, the elimination of the Current Fundamental Loan Policy of each Fund and the New Fundamental Loan Policy, described below.

- (a) **Elimination of Fundamental Policy Relating to Making Loans:** Each Fund's Current Fundamental Loan Policy with respect to making loans, which is proposed to be eliminated, provides that the respective Fund shall not:

Make loans, other than by entering into repurchase agreements and through the purchase of [Municipal Obligations/municipal bonds] or [temporary/short-term] investments in accordance with its investment objectives, policies and limitations.

Table of Contents

- (b) Approval of New Fundamental Policy Relating to Making Loans:** It is proposed that each Fund adopt a New Fundamental Loan Policy with respect to making loans. The adoption of the following New Fundamental Loan Policy for each Fund is contingent on shareholder approval of the elimination of that Fund's Current Fundamental Loan Policy with respect to making loans, as reflected in (a) above. The proposed New Fundamental Loan Policy provides that each Fund shall not:

Make loans, except as permitted by the Investment Company Act of 1940, as amended, and exemptive orders granted under the Investment Company Act of 1940, as amended.

For each Fund, approval of the elimination of the Current Fundamental Loan Policy and the adoption of the New Fundamental Loan Policy requires the affirmative vote of the holders of a majority of the Fund's common shares and preferred shares, voting as a single class, and of the preferred shares, voting as a separate class, which is defined as (i) 67% or more of the voting securities present at the Annual Meeting, if the holders of more than 50% of the outstanding voting securities are present or represented by proxy; or (ii) more than 50% of the outstanding voting securities, whichever is less. Broker non-votes and abstentions will have the same effect as shares voted against the proposal. 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. In addition, as required by the terms of the VRDP Shares, each Fund will need to obtain certain consents from rating agencies and the liquidity provider with respect to its VRDP Shares in order to implement the New Fundamental Loan Policy if approved.

To the extent that shareholders of an Acquired Fund do not approve the proposals relating to the New Fundamental Loan Policy but the Reorganizations are approved, it is possible the Acquired Fund's shareholders will be subject to the New Fundamental Loan Policy following the completion of the Reorganizations (as shareholders of the Acquiring Fund) even though they did not vote to approve the New Fundamental Loan Policy. Conversely, if the shareholders of the Acquiring Fund do not approve the New Fundamental Loan Policy but the Reorganizations are approved, it is possible that shareholders of an Acquired Fund that approved the New Fundamental Loan Policy with respect to their Fund may not benefit from the New Fundamental Loan Policy following the completion of the Reorganizations.

Board Recommendation

The Board believes that eliminating the Current Fundamental Loan Policies and adopting the New Fundamental Loan Policies gives the Adviser flexibility to rapidly respond to continuing developments in the municipal market and would enhance the portfolio managers' ability to meet each Fund's investment objectives. In addition, the Board believes that the proposed change will create consistent investment policies for all Nuveen municipal bond funds and will help to promote operational efficiencies.

The Board recommends that shareholders of each Fund vote to approve the elimination of each Current Fundamental Loan Policy and to approve each New Fundamental Loan Policy.

Table of Contents**GENERAL INFORMATION****Outstanding Shares of the Acquiring Fund and the Acquired Funds**

The following table sets forth the number of outstanding common shares and preferred shares and certain other share information, of each Fund as of December 28, 2011.

(1) Title of Class	(2) Shares Authorized	(3) Shares Held by Fund for Its Own Account	(4) Shares Outstanding Exclusive of Shares Shown under (3)
Acquiring Fund:			
Common shares	Unlimited		5,887,263
Preferred shares	Unlimited		355
Premium Income:			
Common shares	200,000,000		6,446,401
Preferred shares	1,000,000		427
Premium Income 2:			
Common shares	200,000,000		12,667,023
Preferred shares	1,000,000		740
Dividend Advantage:			
Common shares	Unlimited		15,261,643
Preferred shares	Unlimited		1,044

The common shares of the Acquiring Fund and Dividend Advantage are listed and trade on the NYSE AMEX under the symbol NKX and NKL, respectively. The common shares of Premium Income and Premium Income 2 are listed and trade on the NYSE under the ticker NPC and NCL, respectively. The preferred shares are not listed on any exchange.

Shareholders of the Acquiring Fund and the Acquired Funds

As of October 31, 2011, the members of the Board and officers of each Fund as a group owned less than 1% of the total outstanding shares common shares and less than 1% of the total outstanding preferred shares of that Fund.

As of October 31, 2011, no shareholder or group of shareholders beneficially owned more than 5% of any class of shares for each Fund, except as provided below. Information with respect to holdings of common shares is based on Schedule 13G filings and amendments made on or before January 4, 2012.

Fund and Class	Shareholder Name and Address	Number of Shares Owned	Percentage Owned
Premium Income Common Shares	First Trust Portfolios L.P. ^(a) 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	733,859	11.40%
	First Trust Advisors L.P. ^(a) 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187		

The Charger Corporation^(a)
120 East Liberty Drive, Suite 400
Wheaton, Illinois 60187

Table of Contents

Fund and Class	Shareholder Name and Address	Number of Shares Owned	Percentage Owned
Premium Income 2 Common Shares	First Trust Portfolios L.P. ^(a) 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	2,016,846	15.90%
	First Trust Advisors L.P. ^(a) 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187		
	The Charger Corporation ^(a) 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187		
Dividend Advantage Common Shares	First Trust Portfolios L.P. ^(a) 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	1,527,334	10.00%
	First Trust Advisors L.P. ^(a) 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187		
	The Charger Corporation ^(a) 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187		

(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.

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 Amex, 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

Table of Contents

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 Meetings 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 tables provide 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).

Table of Contents

	Audit Fees		Audit Related Fees				Tax Fees				All Other Fees			
	Fund ⁽¹⁾		Fund ⁽²⁾		Adviser and Adviser Entities		Fund ⁽³⁾		Adviser and Adviser Entities		Fund ⁽⁴⁾		Adviser and Adviser Entities	
	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Tax-Free Advantage	11,198	18,200	0	1,500	0	0	0	0	0	0	0	0	0	0
Premium Income	11,924	18,200	0	1,500	0	0	0	0	0	0	3,400	850	0	0
Premium Income 2	15,808	18,200	0	0	0	0	0	0	0	0	3,400	3,400	0	0
Dividend Advantage	18,316	18,200	0	6,250	0	0	0	0	0	0	850	850	0	0

- (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 audit or review of financial statements and are not reported under Audit Fees.
 - (3) Tax Fees are the aggregate fees billed for professional services for tax advice, tax compliance and tax planning.
 - (4) All Other Fees are the aggregate fees billed for products and services for agreed-upon procedures engagements for the leveraged Funds.
- Non-Audit Fees.* The following tables provide 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.

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	
	Total Non-Audit Fees Billed to Fund		and Financial Reporting of Fund)		Total Non-Audit Fees Billed to Adviser and Adviser Entities (All Other Engagements)		Total	
	Fiscal Year Ended 2010	Fiscal Year Ended 2011	Fiscal Year Ended 2010	Fiscal Year Ended 2011	Fiscal Year Ended 2010	Fiscal Year Ended 2011	Fiscal Year Ended 2010	Fiscal Year Ended 2011
Tax-Free Advantage	0	0	0	0	0	0	0	0
Premium Income	3,400	850	0	0	0	0	3,400	850
Premium Income 2	3,400	3,400	0	0	0	0	3,400	3,400
Dividend Advantage	850	850	0	0	0	0	850	850

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

Table of Contents

rendered by the independent registered public accounting firm to each Fund or the Adviser or Adviser Entities was 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 Amex, 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 Acquired 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 2012 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 _____, 2012. 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 for the annual meeting must, pursuant to the Acquiring Fund's By-Laws, submit such written notice to the Acquiring Fund not later than _____, 2012 or prior to _____, 2012. 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 Reorganizations are consummated, the Acquired Funds will cease to exist and will not hold their 2012 annual meeting. If the Reorganizations are not approved or are not consummated, the Acquired Funds will hold their 2012 annual meeting of shareholders, expected to be held in November 2012.

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

Table of Contents

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 February 28.

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 February 24, 2012

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. 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

Table of Contents

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 other than the election of Board Members. 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

January , 2012

Table of Contents

APPENDIX A

AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION (the Agreement) is made as of this day of , 2011 by and among Nuveen Insured California Tax-Free Advantage Municipal Fund, a Massachusetts business trust (the Acquiring Fund), and each of Nuveen Insured California Premium Income Municipal Fund, Inc., a Minnesota corporation (Premium Income Fund), Nuveen Insured California Premium Income Municipal Fund 2, Inc., a Minnesota corporation (Premium Income Fund 2), and Nuveen Insured California Dividend Advantage Municipal Fund, a Massachusetts business trust (Dividend Advantage Fund and together with Premium Income Fund and Premium Income Fund 2, each an Acquired Fund and collectively the Acquired Funds, and Premium Income Fund and Premium Income Fund 2, collectively, the MN Acquired Funds). The Acquiring Fund and each Acquired Fund may be referred to collectively herein as the Funds.

For each Reorganization (as defined below), 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 each Acquired Fund into the Acquiring Fund will consist of: (i) the transfer of substantially all of the assets of the Acquired 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 Demand Preferred Shares (VRDP 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 VRDP Shares and collectively with the Acquiring Fund Common Shares, Acquiring Fund Shares) and the assumption by the Acquiring Fund of substantially all of the liabilities of the Acquired Fund; and (ii) the distribution of all the Acquiring Fund Common Shares and Acquiring Fund VRDP Shares to the holders of common shares and VRDP Shares of the Acquired Fund, respectively, as part of the termination, dissolution and complete liquidation of the Acquired Fund as provided herein, all upon the terms and conditions set forth in this Agreement (each, a Reorganization and collectively, the Reorganizations).

WHEREAS, each Fund is a closed-end, management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act), and each Acquired 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 Reorganizations are 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 Reorganizations, and the Board of Trustees or Directors, as applicable, of each Acquired Fund (each, an Acquired Fund Board) has determined that the applicable Reorganization is in the best interests of the respective Acquired Fund and that the interests of the existing shareholders of such Acquired Fund will not be diluted as a result of its Reorganization.

Table of Contents

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 EACH ACQUIRED FUND IN EXCHANGE FOR
ACQUIRING FUND SHARES AND THE ASSUMPTION OF THE LIABILITIES OF
EACH ACQUIRED FUND AND TERMINATION AND LIQUIDATION OF EACH
ACQUIRED FUND**

1.1 **THE EXCHANGE.** Subject to the terms and conditions contained herein and on the basis of the representations and warranties contained herein, each Acquired 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 such Acquired 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 VRDP Shares as the number of VRDP Shares of the Acquired Fund outstanding immediately prior to the Closing Date (less any Acquired Fund VRDP Shares with respect to which Dissenters Rights, as defined below, have been properly exercised) and having substantially identical terms to such Acquired Fund VRDP Shares as of the Closing Date, and (ii) to assume substantially all of the liabilities of such Acquired Fund, if any, as set forth in Section 1.3. The Acquiring Fund VRDP Shares shall be issued in multiple series as set forth in Exhibit A hereto and shall have substantially similar terms and preferences as outstanding VRDP Shares of the Acquiring Fund including, without limitation, the same liquidation preference, voting rights and rights upon liquidation. Such transactions shall take place at the closing provided for in Section 3.1 (each a Closing and collectively, the Closings).

1.2 **ASSETS TO BE TRANSFERRED.** Each Acquired Fund shall transfer all of its assets to the Acquiring Fund, including, without limitation, cash, securities, commodities, interests in futures, dividends or interest receivables owned by the Acquired Fund and any deferred or prepaid expenses shown as an asset on the books of the Acquired Fund on the Closing Date, except that the Acquired Fund shall retain assets sufficient to pay the preferred share dividend as set forth in Section 1.4, its expenses as set forth in Article IX, and with respect to the MN Acquired Funds, all liabilities (whether absolute, accrued, contingent or otherwise) as the Board of the Acquired Fund or its officer reasonably expect to exist against the Acquired Fund as a result of the exercise of dissenters rights under Minnesota law (Dissenters Rights).

Each Acquired Fund will, within a reasonable period of time before the Closing Date, furnish the Acquiring Fund with a list of the Acquired Fund s portfolio securities and other investments. The Acquiring Fund will, within a reasonable period of time before the Closing Date, furnish each Acquired Fund with a list of the securities, if any, on the Acquired Fund s list referred to above that do not conform to the Acquiring Fund s investment objective, policies, and restrictions. Each Acquired 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 each Acquired Fund and the Acquiring Fund, when aggregated, would contain investments exceeding certain percentage limitations imposed upon the Acquiring Fund with respect to such investments, each Acquired 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 any Acquired Fund to dispose of any investments or securities if, in the

Table of Contents

reasonable judgment of the Acquired Fund Board or Nuveen Fund Advisors, Inc., the investment adviser to the Funds (the Adviser), such disposition would adversely affect the status of its Reorganization as a reorganization as such term is used in the Code or would otherwise not be in the best interests of such Acquired Fund.

1.3 LIABILITIES TO BE ASSUMED. Each Acquired Fund will endeavor to discharge all of its known liabilities and obligations to the extent possible before the Closing Date, except as provided in Section 1.4. Notwithstanding the foregoing, the liabilities not so discharged shall be assumed by the Acquiring Fund, which assumed liabilities shall include all of an Acquired 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 dividend set forth in Section 1.4 or with respect to the exercise of Dissenters' Rights by any shareholders of a MN Acquired Fund.

1.4 DECLARATION OF PREFERRED SHARE DIVIDENDS. Dividends shall accumulate on the preferred shares of each Acquired Fund 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 VRDP Shares shall accumulate from and including the Closing Date. Prior to the Closing Date, each Acquired Fund shall declare all accumulated but unpaid dividends on its Acquired Fund VRDP Shares up to and including the day before the Closing Date, such dividends to be paid to the holder thereof on the dividend payment date in respect of the first dividend period of the Acquiring Fund VRDP Shares for which such Acquired Fund VRDP Shares were exchanged. The first dividend period for Acquiring Fund VRDP Shares will commence on the Closing Date and end on the last business day of the calendar month that includes the Closing Date, and each subsequent dividend period will be a calendar month (or the portion thereof occurring prior to the redemption of such Acquiring Fund VRDP Shares). Each Acquired Fund shall retain assets in an amount sufficient to pay the dividend 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) each Acquired Fund will distribute in complete liquidation of the Acquired Fund, pro rata to its common shareholders of record, determined as of the Valuation Time, as such term is defined in Section 2.1 (the Acquired Fund Common Shareholders), all of the Acquiring Fund Common Shares received by such Acquired 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 prior to the Liquidation Date (Interim Dividends)) and to its preferred shareholders of record, determined as of the Valuation Time, other than such preferred shareholders of a MN Acquired Fund who have properly exercised dissenters' rights with respect to the Reorganization (Acquired Fund Preferred Shareholders) and, collectively with each Acquired Fund Common Shareholders, the Acquired Fund Shareholders), one share of Acquiring Fund VRDP Shares received by such Acquired Fund (together with any Interim Dividends) in exchange for each Acquired Fund VRDP Share held by such preferred shareholders of such Acquired Fund immediately prior to its respective Reorganization; and (b) each Acquired 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 each Acquired Fund on the books of the Acquiring Fund to open accounts on the share records of the Acquiring Fund in the names of Acquired Fund Shareholders and representing, in the case of an Acquired Fund Common Shareholder, such shareholder's pro rata share of the Acquiring Fund

Table of Contents

Common Shares received by such Acquired Fund and in the case of an Acquired Fund Preferred Shareholder, a number of Acquiring Fund VRDP Shares received by such Acquired Fund equal to the number of Acquired Fund VRDP Shares held by such shareholder immediately prior to the Closing Date (as set forth above), and by paying to the shareholders of the Acquired Fund any Interim Dividends on such transferred shares. All issued and outstanding common and preferred shares of each Acquired Fund, including, without limitation, any preferred shares of a MN Acquired Fund with respect to which Dissenters' Rights have been properly exercised, will simultaneously be canceled on the books of the Acquired 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 simultaneously to each Acquired Fund, in an amount computed in the manner set forth in this Agreement, to be distributed to Acquired 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 an Acquired Fund's common shares or preferred shares on the books of such Acquired 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. Each Acquired Fund shall completely liquidate and be dissolved, terminated and have its affairs wound up in accordance with Massachusetts or Minnesota state law, as applicable, promptly following the Closing Date and the making of all distributions pursuant to Section 1.5.

1.9 REPORTING. Any reporting responsibility of each Acquired 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 New York Stock Exchange (NYSE), NYSE Amex 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 each Acquired Fund.

1.10 BOOKS AND RECORDS. All books and records of each Acquired 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 each Acquired Fund shall 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), using the valuation procedures adopted by the Acquired Fund's Board of Directors or Trustees or such other valuation procedures as shall be mutually agreed upon by the parties. The value of each Acquired Fund's net assets shall be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding preferred shares of such Acquired Fund.

Table of Contents

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 adopted by the Acquiring Fund's Board of Trustees 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 an Acquired 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 such Acquired 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 an Acquired Fund's shareholders and, in lieu of such fractional shares, an Acquired Fund's shareholders will receive cash. The aggregate net asset value of Acquiring Fund Common Shares received by each Acquired Fund in a Reorganization will equal the aggregate net asset value of Acquired Fund common shares held by shareholders of such Acquired Fund immediately prior to the Closing Date. In the event there are fractional Acquiring Fund Common Shares due an Acquired Fund shareholder on the Closing Date after each Acquired Fund's common shares 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 NYSE Amex for the account 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 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 NYSE, NYSE Amex or another primary exchange on which the portfolio securities of the Acquiring Fund or an Acquired 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 NYSE, NYSE Amex or elsewhere shall be disrupted so that accurate appraisal of the value of the net assets of the Acquiring Fund or an Acquired 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

CLOSINGS AND CLOSING DATE

3.1 CLOSING DATE. Each Closing shall occur on _____ or such other date as the parties may agree (each a Closing Date). Unless otherwise provided, all acts taking place at a Closing shall be deemed to take place as of 8:00 a.m. Central time. Each 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.

Table of Contents

3.2 CUSTODIAN'S CERTIFICATE. Each Acquired Fund shall cause State Street, as custodian for such Acquired Fund (the Custodian), to deliver to the Acquiring Fund at the Closing a certificate of an authorized officer stating that: (a) the Acquired Fund's portfolio securities, cash, and any other assets shall have been delivered in proper form to the Acquiring Fund on the Closing Date; and (b) all necessary taxes, including all applicable federal and state stock transfer stamps, if any, shall have been paid, or provision for payment shall have been made, in conjunction with the delivery of portfolio securities by the Acquired Fund.

3.3 CERTIFICATES OF TRANSFER AGENT AND TENDER AGENT.

(a) With respect to its common shares, each Acquired Fund shall cause State Street, as transfer agent, to 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 of such Acquired Fund, and the number and percentage ownership of outstanding common shares owned by each such Acquired Fund Shareholder immediately prior to the Closing. With respect to its VRDP Shares, each Acquired Fund shall cause Bank of New York Mellon, as tender and paying agent, to 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 VRDP Shares of such Acquired Fund, and the number and percentage ownership of outstanding VRDP Shares owned by each such Acquired Fund Shareholder immediately prior to the Closing.

(b) The Acquiring Fund shall issue and deliver or cause State Street and Bank of New York Mellon in their capacities as transfer agent with respect to common shares and tender and paying agent with respect to VRDP Shares, respectively, to issue and deliver to each Acquired Fund a confirmation evidencing the Acquiring Fund Shares to be credited on the Closing Date to the Secretary of each Acquired Fund or provide evidence satisfactory to each Acquired Fund that such Acquiring Fund Shares have been credited to each Acquired 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 EACH ACQUIRED FUND. Each Acquired Fund represents and warrants as follows:

(a) The Acquired Fund is a corporation or business trust, as applicable, duly organized, validly existing and in good standing under the laws of its respective jurisdiction of organization.

(b) The Acquired 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 Acquired 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 Acquired Fund's Declaration of Trust or Articles of Incorporation, as applicable, or By-Laws or of any

Table of Contents

material agreement, indenture, instrument, contract, lease, or other undertaking to which the Acquired 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 Acquired 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 Acquired 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 Acquired Fund to carry out the transactions contemplated by this Agreement. The Acquired 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 Acquired Fund as of February 28, 2011, and for the 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 Acquired Fund as of February 28, 2011, and there are no known contingent liabilities of the Acquired Fund as of such date that are not disclosed in such statements.

(g) The financial statements of the Acquired Fund as of August 31, 2011, and for the period 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 Acquired Fund as of August 31, 2011, and there are no known contingent liabilities of the Acquired Fund as of such date that are not disclosed in such statements.

(h) Since the date of the financial statements referred to in subsection (g) above, there have been no material adverse changes in the Acquired 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 Acquired Fund arising after such date. For the purposes of this subsection (h), a decline in the net asset value of the Acquired Fund shall not constitute a material adverse change.

(i) All federal, state, local and other tax returns and reports of the Acquired 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 Acquired 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 are properly reflected on the financial statements referred to in subsection (g) above. To the best of the Acquired Fund's knowledge, no tax authority is currently auditing or preparing to audit the Acquired Fund, and no assessment for taxes, interest, additions to tax or penalties has been asserted against the Acquired Fund.

(j) The authorized capital of the Dividend Advantage Fund consists of an unlimited number of common and preferred shares, par value \$.01 per share. The authorized capital of each of Premium Income Fund and Premium Income Fund 2 consists of 200,000,000 shares of common stock and 1,000,000 shares of preferred stock, par value \$.01 per share. All issued and outstanding shares of the Acquired Fund are duly and validly issued and outstanding, fully paid and non-assessable

Table of Contents

by the Acquired Fund (recognizing that, with respect to each Acquired Fund organized as a Massachusetts business trust, under Massachusetts law, Acquired Fund shareholders, under certain circumstances, could be held personally liable for the obligations of the Acquired Fund under Massachusetts law). All of the issued and outstanding shares of the Acquired Fund will, at the time of the Closing, be held by the persons and in the amounts set forth in the records of the Acquired Fund's transfer agent as provided in Section 3.3. The Acquired Fund has no outstanding options, warrants or other rights to subscribe for or purchase any shares of the Acquired Fund, and has no outstanding securities convertible into shares of the Acquired Fund.

(k) At the Closing, the Acquired Fund will have good and marketable title to the Acquired 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.

(l) The execution, delivery and performance of this Agreement have been duly authorized by all necessary action on the part of the Acquired Fund, including the determinations of the Acquired 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 Acquired 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.

(m) The information to be furnished by the Acquired 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.

(n) 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 Acquired Fund with respect to the Acquired Fund for use in the Proxy Materials (as defined in Section 5.7), or any other materials provided in connection with its 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.

(o) For each taxable year of its operations (including the taxable year ending on the Closing Date), the Acquired 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.

Table of Contents

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 or By-Laws 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 transaction contemplated herein.
- (e) The financial statements of the Acquiring Fund as of February 28, 2011 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 each Acquired Fund) fairly reflect the financial condition of the Acquiring Fund as of February 28, 2011, and there are no known contingent liabilities of the Acquiring Fund as of such date that are not disclosed in such statements.
- (f) The financial statements of the Acquiring Fund as of August 31, 2011, and for the period then ended have been prepared in accordance with generally accepted accounting principles, and such statements (copies of which have been furnished to the Acquired Funds) fairly reflect the financial condition of the Acquiring Fund as of August 31, 2011, and there are no known contingent liabilities of the Acquiring Fund as of such date that are not disclosed in such statements.
- (g) Since the date of the financial statements referred to in subsections (e) and (f) 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 (g), a decline in the net asset value of the Acquiring Fund shall not constitute a material adverse change.
- (h) 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 are properly reflected on the financial statements referred to in subsections (e) and (f) above. To the best of the Acquiring Fund's

Table of Contents

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.

(i) 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 and outstanding, 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 to the Acquiring Fund). The Acquiring Fund has no outstanding options, warrants, or other rights to subscribe for or purchase shares of the Acquiring Fund, and has no outstanding securities convertible into shares of the Acquiring Fund.

(j) 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 Board of the Acquiring Fund 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.

(k) The Acquiring Fund Shares to be issued and delivered to each Acquired Fund for the account of Acquired Fund Shareholders pursuant to the terms of this Agreement will, at the Closing Date, have been duly authorized. When so issued and delivered, such shares will be duly and validly issued shares of the Acquiring Fund, and will be fully paid and non-assessable.

(l) 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.

(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 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 Reorganizations, 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 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.

(o) 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.

Table of Contents

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 each Acquired 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 each Acquired Fund will call a meeting of their respective shareholders to consider and act upon this Agreement (or transactions contemplated thereby) and to take all other appropriate action necessary to obtain approval of the transactions contemplated herein.

5.3 **INVESTMENT REPRESENTATION.** Each Acquired 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 Reorganizations and in accordance with the terms of this Agreement.

5.4 **ADDITIONAL INFORMATION.** Each Acquired Fund will assist the Acquiring Fund in obtaining such information as the Acquiring Fund reasonably requests concerning the beneficial ownership of the Acquired 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, each Acquired Fund shall furnish the Acquiring Fund, in such form as is reasonably satisfactory to the Acquiring Fund and which shall be certified by such Acquired Fund's Controller, a statement of the earnings and profits of the Acquired 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 Shares to be issued to Acquired Fund 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 parties 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 REORGANIZATIONS.** The intention of the parties is that each Reorganization will qualify as a reorganization within the meaning of Section 368(a) of the Code.

Table of Contents

Neither the Acquired Funds 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 reorganizations 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 8.7.

ARTICLE VI

CONDITION PRECEDENT TO OBLIGATIONS OF EACH ACQUIRED FUND

The obligations of each Acquired 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 each Acquired Fund a certificate executed in the Acquiring Fund's name by the Acquiring Fund's Chief Administrative Officer or Vice President and its Controller, in form and substance satisfactory to each Acquired Fund and dated as of the Closing Date, to such effect and as to such other matters as each Acquired 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 each Acquired 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. Each Acquired Fund shall have delivered to the Acquiring Fund on the Closing Date a certificate executed in the Acquired Fund's name by the Acquired Fund's Chief Administrative Officer or Vice President and the 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 Each Acquired Fund shall have delivered to the Acquiring Fund a statement of the Acquired Fund's assets and liabilities, together with a list of the Acquired 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 Fund.

7.3 On or immediately prior to the Closing Date, each Acquired Fund shall have declared the dividends and/or distributions contemplated by Section 1.4.

Table of Contents

ARTICLE VIII

FURTHER CONDITIONS PRECEDENT

The obligations of each Acquired 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 each Acquired Fund in accordance with applicable law and the provisions of each Acquired Fund's Declaration of Trust or Articles of Incorporation, as applicable, 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 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 Each Acquired Fund shall have declared a dividend or dividends which, together with all previous such dividends, shall have the effect of distributing to its shareholders all of the Acquired 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 Funds 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) Each of the Acquiring Fund and Dividend Advantage 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

Table of Contents

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 Prospectus/Proxy Statement.

(b) Each of Premium Income Fund and Premium Income Fund 2 has been duly organized as a corporation and is validly existing and in good standing under the laws of the State of Minnesota and, to such counsel's knowledge, has the power to own all of its properties and assets and to carry on its business as presently conducted, in each case as described in the Prospectus/Proxy Statement.

(c) Each 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.

(d) 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 each Acquired Fund on behalf of its Acquired Fund Shareholders as provided by this Agreement are duly authorized and upon such delivery will be legally issued and outstanding and fully paid and non-assessable, except that, as described in the Registration Statement, 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.

(e) The Registration Statement is effective and, to such counsel's knowledge, no stop order under the 1933 Act pertaining thereto has been issued, and 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 or State of Minnesota, as applicable, is required for consummation by the Funds of the transactions contemplated herein, except as have been obtained.

(f) With respect to each Fund, the execution and delivery of the Agreement by the Fund, did not, and the performance of the Fund's obligations pursuant to the terms of the Agreement will not, violate the Fund's Declaration of Trust or Articles of Incorporation, as applicable, or By-Laws (assuming approval of shareholders of the Funds has been obtained).

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

8.7 With respect to each Reorganization, the Funds participating in such Reorganization shall have received an opinion of Vedder Price P.C. addressed to the Acquiring Fund and the Acquired Fund substantially to the effect that for federal income tax purposes:

(a) The transfer of substantially all of the Acquired 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 Acquired Fund followed by the distribution to Acquired Fund Shareholders of all the Acquiring Fund Shares received by the Acquired Fund in complete liquidation of the Acquired Fund will constitute a reorganization within the meaning of Section 368(a) of the

Table of Contents

Code and the Acquiring Fund and the Acquired 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 Acquired Fund solely in exchange for Acquiring Fund Shares and the assumption by the Acquiring Fund of substantially all of the liabilities of the Acquired Fund.

(c) No gain or loss will be recognized by the Acquired 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 Acquired Fund or upon the distribution (whether actual or constructive) of such Acquiring Fund Shares to Acquired Fund Shareholders solely in exchange for such shareholders' common and preferred shares of the Acquired Fund in complete liquidation of the Acquired Fund.

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

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

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

No opinion will be expressed as to (1) the federal income tax consequences of payments to shareholders of an Acquired Fund who exercise dissenters' rights, (2) the effect of the Reorganizations on (A) each Acquired Fund or the Acquiring Fund with respect to any asset as to which any unrealized gain or loss is required to be recognized for federal income tax purposes at the end of a taxable year (or on the termination thereof) under a mark-to-market system of accounting, (B) any Acquired Fund Shareholder that is required to recognize unrealized gains and losses for federal income tax purposes under a mark-to-market system of accounting, or (C) an Acquired Fund or the Acquiring Fund with respect to any stock held in a passive foreign investment company as defined in Section 1297(a) of the Code or (3) 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 each Acquired 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 any Acquired Fund may waive the conditions set forth in this Section 8.7. Insofar as the opinions expressed above relates to or is dependent upon the classification of the Acquiring Fund VRDP Shares as equity securities for U.S. federal income tax purposes, Vedder Price P.C. may rely on the opinion of Sidley Austin LLP with respect to such issue.

Table of Contents

8.8 The Acquiring Fund shall have obtained written confirmation from Moody's Investors Service, Inc., Fitch Inc. or Standard & Poor's Ratings Services 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 shares of Acquiring Fund VRDP Shares and (b) the shares of Acquiring Fund VRDP Shares to be issued pursuant to Section 1.1 will be rated by such rating agencies no less than the Acquired Fund VRDP Shares exchanged therefor.

ARTICLE IX

EXPENSES

9.1 The expenses incurred in connection with the Reorganizations will be allocated between the Funds involved ratably based on the projected relative benefits to each Fund during the first year following the Reorganizations and paid out of such Funds' net assets on or before the Closing Date. 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 parties 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 an Acquired 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 no party has made to the other parties any representation, warranty and/or covenant not set forth herein, and that this Agreement constitutes the entire agreement between and among 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 the Vice President without

Table of Contents

further action by the Acquiring Fund Board or an Acquired Fund Board. In addition, this Agreement may be terminated at or before the Closing Date due to:

- (a) a breach by any other 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 Acquiring Fund Board or an Acquired Fund Board that the consummation of the transactions contemplated herein is not in the best interests of its respective Fund involved in the Reorganizations.

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, any Acquired Fund Board, any Acquired 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 or Board of Directors, as applicable; 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 Acquired 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, but, except as provided in this section, no assignment or transfer hereof or of any rights or obligations hereunder shall be made by any party without the written consent of the other parties. 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.

Table of Contents

13.5 With respect to each Fund organized as a Massachusetts business trust, it is expressly agreed that the obligations of such Fund hereunder shall not be binding upon any of the Board members, shareholders, nominees, officers, agents, or employees of any Fund personally, but shall bind only the fund property of the respective 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 the Board, and 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 fund property of the respective Fund as provided in each Fund's Declaration of Trust.

13.6 It is understood and agreed that the use of a single Agreement is for administrative convenience only and shall constitute a separate agreement between each Acquired Fund and the Acquiring Fund, as if each party had executed a separate document. No Fund shall have any liability for the obligations of any other Fund, and the liabilities of each Fund shall be several and not joint.

[Remainder of Page Intentionally Left Blank]

Table of Contents

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

**NUVEEN INSURED CALIFORNIA
TAX-FREE ADVANTAGE**

MUNICIPAL FUND

By:
Name:
Title:

ACKNOWLEDGED:

By:
Name:
Title:

**NUVEEN INSURED CALIFORNIA PREMIUM
INCOME MUNICIPAL**

FUND, INC.

By:
Name:
Title:

ACKNOWLEDGED:

By:
Name:
Title:

**NUVEEN INSURED CALIFORNIA PREMIUM
INCOME MUNICIPAL**

FUND 2, INC.

By:
Name:
Title:

**NUVEEN INSURED CALIFORNIA DIVIDEND
ADVANTAGE MUNICIPAL FUND**

By:
Name:
Title:

Table of Contents

ACKNOWLEDGED:

By:
Name:
Title:

A-20

Table of Contents

EXHIBIT A

Acquired Fund	Acquired Fund VRDP Shares Outstanding	Acquiring Fund Shares to be Received in Reorganization	Maximum No. of Shares to be Issued
Premium Income	VRDP Shares, Series 1 Term Redemption Date: 3/1/2040	VRDP Shares, Series [] Term Redemption Date: 3/1/2040	
Premium Income 2	VRDP Shares, Series 1 Term Redemption Date: 12/1/2040	VRDP Shares, Series [] Term Redemption Date: 12/1/2040	
Dividend Advantage	VRDP Shares, Series 1 Term Redemption Date: 6/1/2041	VRDP Shares, Series [] Term Redemption Date: 6/1/2041	

A-21

Table of Contents**APPENDIX B****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 October 31, 2011.

Dollar Range of Equity Securities

Board Member Nominees	Tax-Free Advantage	Premium Income	Premium Income 2	Dividend Advantage	Family of Investment Companies ⁽¹⁾
Board Members/Nominees who are not interested persons of the Funds					
Robert P. Bremner	\$ 0	\$ 0	\$ 0	\$ 0	Over \$ 100,000
Jack B. Evans	0	0	0	0	Over \$ 100,000
William C. Hunter	0	0	0	0	Over \$ 100,000
David J. Kundert	0	0	0	0	Over \$ 100,000
William J. Schneider	0	0	0	0	Over \$ 100,000
Judith M. Stockdale	0	0	0	0	Over \$ 100,000
Carole E. Stone	0	0	0	0	Over \$ 100,000
Virginia L. Stringer	0	0	0	0	Over \$ 100,000
Terence J. Toth	0	0	0	0	Over \$ 100,000
Board Member/Nominee who is an interested person of the Funds					
John P. Amboian	0	0	0	0	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 October 31, 2011. 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⁽¹⁾

Board Member Nominees	Tax-Free Advantage	Premium Income	Premium Income 2	Dividend Advantage
Independent Board Members/Nominees				
Robert P. Bremner	\$ 0	\$ 0	\$ 0	\$ 0
Jack B. Evans	0	0	0	0
William C. Hunter	0	0	0	0
David J. Kundert	0	0	0	0
William J. Schneider	0	0	0	0
Judith M. Stockdale	0	0	0	0
Carole E. Stone	0	0	0	0
Virginia L. Stringer	0	0	0	0
Terence J. Toth	0	0	0	0

Non-Independent Board Member/Nominee				
John P. Amboian	0	0	0	0
All Board Members and Officers as a Group	0	0	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.

B-1

Table of Contents

APPENDIX C

NUMBER OF BOARD AND COMMITTEE MEETINGS HELD DURING

EACH FUND'S LAST FISCAL YEAR

Fund	Regular Board Meeting	Special Board Meeting	Executive Committee Meeting	Dividend Committee Meeting	Compliance, Risk Management and Regulatory Oversight Committee Meeting	Audit Committee Meeting	Nominating and Governance Committee Meeting
Tax-Free Advantage	6	8	0	5	5	4	4
Premium Income	6	8	0	5	5	4	4
Premium Income 2	6	8	0	5	5	4	4
Dividend Advantage	6	8	1	5	5	4	4

C-1

Table of Contents

APPENDIX D

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

Table of Contents

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

Table of Contents

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

Table of Contents

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's 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.

Table of Contents

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.

Table of Contents

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

D-6

Table of Contents

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.

D-7

Table of Contents

APPENDIX E

MINNESOTA STATUTES RIGHTS OF DISSENTING SHAREHOLDERS

302A.471 RIGHTS OF DISSENTING SHAREHOLDERS.

Subdivision 1. **Actions creating rights.** A shareholder of a corporation may dissent from, and obtain payment for the fair value of the shareholder's shares in the event of, any of the following corporate actions:

- (a) unless otherwise provided in the articles, an amendment of the articles that materially and adversely affects the rights or preferences of the shares of the dissenting shareholder in that it:
 - (1) alters or abolishes a preferential right of the shares;
 - (2) creates, alters, or abolishes a right in respect of the redemption of the shares, including a provision respecting a sinking fund for the redemption or repurchase of the shares;
 - (3) alters or abolishes a preemptive right of the holder of the shares to acquire shares, securities other than shares, or rights to purchase shares or securities other than shares;
 - (4) excludes or limits the right of a shareholder to vote on a matter, or to cumulate votes, except as the right may be excluded or limited through the authorization or issuance of securities of an existing or new class or series with similar or different voting rights; except that an amendment to the articles of an issuing public corporation that provides that section 302A.671 does not apply to a control share acquisition does not give rise to the right to obtain payment under this section; or
 - (5) eliminates the right to obtain payment under this subdivision;
- (b) a sale, lease, transfer, or other disposition of property and assets of the corporation that requires shareholder approval under section 302A.661, subdivision 2, but not including a disposition in dissolution described in section 302A.725, subdivision 2, or a disposition pursuant to an order of a court, or a disposition for cash on terms requiring that all or substantially all of the net proceeds of disposition be distributed to the shareholders in accordance with their respective interests within one year after the date of disposition;
- (c) a plan of merger, whether under this chapter or under chapter 322B, to which the corporation is a constituent organization, except as provided in subdivision 3, and except for a plan of merger adopted under section 302A.626;
- (d) a plan of exchange, whether under this chapter or under chapter 322B, to which the corporation is a party as the corporation whose shares will be acquired by the acquiring organization, except as provided in subdivision 3;
- (e) a plan of conversion adopted by the corporation; or
- (f) any other corporate action taken pursuant to a shareholder vote with respect to which the articles, the bylaws, or a resolution approved by the board directs that dissenting shareholders may obtain payment for their shares.

Subdivision 2. **Beneficial owners.** (a) A shareholder shall not assert dissenters' rights as to less than all of the shares registered in the name of the shareholder, unless the shareholder dissents with

Table of Contents

respect to all the shares that are beneficially owned by another person but registered in the name of the shareholder and discloses the name and address of each beneficial owner on whose behalf the shareholder dissents. In that event, the rights of the dissenter shall be determined as if the shares as to which the shareholder has dissented and the other shares were registered in the names of different shareholders.

(b) A beneficial owner of shares who is not the shareholder may assert dissenters' rights with respect to shares held on behalf of the beneficial owner, and shall be treated as a dissenting shareholder under the terms of this section and section 302A.473, if the beneficial owner submits to the corporation at the time of or before the assertion of the rights a written consent of the shareholder.

Subdivision 3. **Rights not to apply.** (a) Unless the articles, the bylaws, or a resolution approved by the board otherwise provide, the right to obtain payment under this section does not apply to a shareholder of (1) the surviving corporation in a merger with respect to shares of the shareholder that are not entitled to be voted on the merger and are not canceled or exchanged in the merger or (2) the corporation whose shares will be acquired by the acquiring organization in a plan of exchange with respect to shares of the shareholder that are not entitled to be voted on the plan of exchange and are not exchanged in the plan of exchange.

(b) If a date is fixed according to section 302A.445, subdivision 1, for the determination of shareholders entitled to receive notice of and to vote on an action described in subdivision 1, only shareholders as of the date fixed, and beneficial owners as of the date fixed who hold through shareholders, as provided in subdivision 2, may exercise dissenters' rights.

(c) Notwithstanding subdivision 1, the right to obtain payment under this section, other than in connection with a plan of merger adopted under section 302A.621, is limited in accordance with the following provisions:

(1) The right to obtain payment under this section is not available for the holders of shares of any class or series of shares that is listed on the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, or the NASDAQ Global Select Market.

(2) The applicability of clause (1) is determined as of:

(i) the record date fixed to determine the shareholders entitled to receive notice of, and to vote at, the meeting of shareholders to act upon the corporate action described in subdivision 1; or

(ii) the day before the effective date of corporate action described in subdivision 1 if there is no meeting of shareholders.

(3) Clause(1) is not applicable, and the right to obtain payment under this section is available pursuant to subdivision 1, for the holders of any class or series of shares who are required by the terms of the corporate action described in subdivision 1 to accept for such shares anything other than shares, or cash in lieu of fractional shares, of any class or any series of shares of a domestic or foreign corporation, or any other ownership interest of any other organization, that satisfies the standards set forth in clause (1) at the time the corporate action becomes effective.

Subdivision 4. **Other rights.** The shareholders of a corporation who have a right under this section to obtain payment for their shares, or who would have the right to obtain payment for their

Table of Contents

shares absent the exception set forth in paragraph (c) of subdivision 3, do not have a right at law or in equity to have a corporate action described in subdivision 1 set aside or rescinded, except when the corporate action is fraudulent with regard to the complaining shareholder or the corporation.

302A.473 PROCEDURES FOR ASSERTING DISSENTERS' RIGHTS.

Subdivision 1. **Definitions.** (a) For purposes of this section, the terms defined in this subdivision have the meanings given them.

(b) **Corporation** means the issuer of the shares held by a dissenter before the corporate action referred to in section 302A.471, subdivision 1 or the successor by merger of that issuer.

(c) **Fair value of the shares** means the value of the shares of a corporation immediately before the effective date of the corporate action referred to in section 302A.471, subdivision 1.

(d) **Interest** means interest commencing five days after the effective date of the corporate action referred to in section 302A.471, subdivision 1, up to and including the date of payment, calculated at the rate provided in section 549.09 for interest on verdicts and judgments.

Subdivision 2. **Notice of action.** If a corporation calls a shareholder meeting at which any action described in section 302A.471, subdivision 1 is to be voted upon, the notice of the meeting shall inform each shareholder of the right to dissent and shall include a copy of section 302A.471 and this section and a brief description of the procedure to be followed under these sections.

Subdivision 3. **Notice of dissent.** If the proposed action must be approved by the shareholders and the corporation holds a shareholder meeting, a shareholder who is entitled to dissent under section 302A.471 and who wishes to exercise dissenters' rights must file with the corporation before the vote on the proposed action a written notice of intent to demand the fair value of the shares owned by the shareholder and must not vote the shares in favor of the proposed action.

Subdivision 4. **Notice of procedure; deposit of shares.** (a) After the proposed action has been approved by the board and, if necessary, the shareholders, the corporation shall send to (i) all shareholders who have complied with subdivision 3, (ii) all shareholders who did not sign or consent to a written action that gave effect to the action creating the right to obtain payment under section 302A.471, and (iii) all shareholders entitled to dissent if no shareholder vote was required, a notice that contains:

- (1) the address to which a demand for payment and certificates of certificated shares must be sent in order to obtain payment and the date by which they must be received;
- (2) any restrictions on transfer of uncertificated shares that will apply after the demand for payment is received;
- (3) a form to be used to certify the date on which the shareholder, or the beneficial owner on whose behalf the shareholder dissents, acquired the shares or an interest in them and to demand payment; and
- (4) a copy of section 302A.471 and this section and a brief description of the procedures to be followed under these sections.

Table of Contents

(b) In order to receive the fair value of the shares, a dissenting shareholder must demand payment and deposit certificated shares or comply with any restrictions on transfer of uncertificated shares within 30 days after the notice required by paragraph (a) was given, but the dissenter retains all other rights of a shareholder until the proposed action takes effect.

Subdivision 5. **Payment; return of shares.** (a) After the corporate action takes effect, or after the corporation receives a valid demand for payment, whichever is later, the corporation shall remit to each dissenting shareholder who has complied with subdivisions 3 and 4 the amount the corporation estimates to be the fair value of the shares, plus interest, accompanied by:

(1) the corporation's closing balance sheet and statement of income for a fiscal year ending not more than 16 months before the effective date of the corporate action, together with the latest available interim financial statements;

(2) an estimate by the corporation of the fair value of the shares and a brief description of the method used to reach the estimate; and

(3) a copy of section 302A.471 and this section, and a brief description of the procedure to be followed in demanding supplemental payment.

(b) The corporation may withhold the remittance described in paragraph (a) from a person who was not a shareholder on the date the action dissented from was first announced to the public or who is dissenting on behalf of a person who was not a beneficial owner on that date. If the dissenter has complied with subdivisions 3 and 4, the corporation shall forward to the dissenter the materials described in paragraph (a), a statement of the reason for withholding the remittance, and an offer to pay to the dissenter the amount listed in the materials if the dissenter agrees to accept that amount in full satisfaction. The dissenter may decline the offer and demand payment under subdivision 6. Failure to do so entitles the dissenter only to the amount offered. If the dissenter makes demand, subdivisions 7 and 8 apply.

(c) If the corporation fails to remit payment within 60 days of the deposit of certificates or the imposition of transfer restrictions on uncertificated shares, it shall return all deposited certificates and cancel all transfer restrictions. However, the corporation may again give notice under subdivision 4 and require deposit or restrict transfer at a later time.

Subdivision 6. **Supplemental payment; demand.** If a dissenter believes that the amount remitted under subdivision 5 is less than the fair value of the shares plus interest, the dissenter may give written notice to the corporation of the dissenter's own estimate of the fair value of the shares, plus interest, within 30 days after the corporation mails the remittance under subdivision 5, and demand payment of the difference. Otherwise, a dissenter is entitled only to the amount remitted by the corporation.

Subdivision 7. **Petition; determination.** If the corporation receives a demand under subdivision 6, it shall, within 60 days after receiving the demand, either pay to the dissenter the amount demanded or agreed to by the dissenter after discussion with the corporation or file in court a petition requesting that the court determine the fair value of the shares, plus interest. The petition shall be filed in the county in which the registered office of the corporation is located, except that a surviving foreign corporation that receives a demand relating to the shares of a constituent domestic corporation shall file the petition in the county in this state in which the last registered office of the constituent corporation

Table of Contents

was located. The petition shall name as parties all dissenters who have demanded payment under subdivision 6 and who have not reached agreement with the corporation. The corporation shall, after filing the petition, serve all parties with a summons and copy of the petition under the Rules of Civil Procedure. Nonresidents of this state may be served by registered or certified mail or by publication as provided by law. Except as otherwise provided, the Rules of Civil Procedure apply to this proceeding. The jurisdiction of the court is plenary and exclusive. The court may appoint appraisers, with powers and authorities the court deems proper, to receive evidence on and recommend the amount of the fair value of the shares. The court shall determine whether the shareholder or shareholders in question have fully complied with the requirements of this section, and shall determine the fair value of the shares, taking into account any and all factors the court finds relevant, computed by any method or combination of methods that the court, in its discretion, sees fit to use, whether or not used by the corporation or by a dissenter. The fair value of the shares as determined by the court is binding on all shareholders, wherever located. A dissenter is entitled to judgment in cash for the amount by which the fair value of the shares as determined by the court, plus interest, exceeds the amount, if any, remitted under subdivision 5, but shall not be liable to the corporation for the amount, if any, by which the amount, if any, remitted to the dissenter under subdivision 5 exceeds the fair value of the shares as determined by the court, plus interest.

Subdivision 8. Costs; fees; expenses. (a) The court shall determine the costs and expenses of a proceeding under subdivision 7, including the reasonable expenses and compensation of any appraisers appointed by the court, and shall assess those costs and expenses against the corporation, except that the court may assess part or all of those costs and expenses against a dissenter whose action in demanding payment under subdivision 6 is found to be arbitrary, vexatious, or not in good faith.

(b) If the court finds that the corporation has failed to comply substantially with this section, the court may assess all fees and expenses of any experts or attorneys as the court deems equitable. These fees and expenses may also be assessed against a person who has acted arbitrarily, vexatiously, or not in good faith in bringing the proceeding, and may be awarded to a party injured by those actions.

(c) The court may award, in its discretion, fees and expenses to an attorney for the dissenters out of the amount awarded to the dissenters, if any.

Table of Contents

Copy No.

APPENDIX F

Subject to Completion, dated January 13, 2012

INFORMATION MEMORANDUM

STRICTLY CONFIDENTIAL

IMPORTANT INFORMATION

This Information Memorandum sets forth the terms of the VRDP Shares (as defined below) to be issued in connection with the reorganizations of Nuveen Insured California Premium Income Fund, Inc., Nuveen Insured California Premium Income Fund 2, Inc. and Nuveen Insured California Dividend Advantage Municipal Fund into Nuveen Insured California Tax-Free Advantage Municipal Fund.

NUVEEN INSURED CALIFORNIA TAX-FREE ADVANTAGE MUNICIPAL FUND VARIABLE RATE DEMAND PREFERRED SHARES (VRDP SHARES)

SERIES 3 VRDP SHARES

SERIES 4 VRDP SHARES

SERIES 5 VRDP SHARES

(THE NEW VRDP SHARES)

LIQUIDATION PREFERENCE \$100,000 PER SHARE

The Offering. Nuveen Insured California Tax-Free Advantage Municipal Fund (the Fund) is a non-diversified, closed-end management investment company. This Information Memorandum is provided for information purposes in connection with the offering of the New VRDP Shares for Series 3, 4 and 5 of the Fund pursuant to the reorganizations of Nuveen Insured California Premium Income Fund, Inc. (Premium Income), Nuveen Insured California Premium Income Fund 2, Inc. (Premium Income 2) and Nuveen Insured California Dividend Advantage Municipal Fund (Dividend Advantage) (each, an Acquired Fund and collectively, the Acquired Funds) into the Fund (each, a Reorganization and collectively, the Reorganizations). Each New VRDP Share has a liquidation preference of \$100,000 per share (the Liquidation Preference).

This Information Memorandum is provided exclusively to VRDP shareholders of the Acquired Funds who were holders of Acquired Fund VRDP shares as of December 28, 2011. Upon the closing of the Reorganizations, each Acquired Fund will transfer substantially all of its assets to the Fund in exchange for common and preferred shares of the Fund, and the assumption by the Fund of substantially all of the liabilities of the Acquired Fund. Each Acquired Fund will then be liquidated, dissolved and terminated in accordance with its declaration of trust or articles of incorporation, as applicable. The Fund will issue a separate series of New VRDP Shares corresponding to each series of Acquired Fund VRDP Shares. Holders of VRDP Shares of each Acquired Fund will receive on a one-for-one basis shares of the applicable series of New VRDP Shares of the Fund, in exchange for VRDP Shares of the Acquired Fund held immediately prior to the Reorganization.

Below is a chart summarizing certain information with respect to each series of VRDP shares of the Fund and the Acquired Funds currently outstanding and each series of New VRDP Shares (each, a VRDP Series) to be issued in connection with the Reorganizations. The chart and other relevant statements herein regarding the exchange of New VRDP Shares for VRDP Shares assume all approvals and consents necessary to effectuate the Reorganizations are obtained prior to the closing, including the consents of the Liquidity Providers (as defined herein) and rating agencies with respect to the VRDP Shares of the Acquired Funds and the Fund.

Table of Contents

Fund	Fund and Acquired Funds		VRDP Series of the Fund Issued and Outstanding
	VRDP Series Outstanding		Following the Reorganizations
Premium Income	VRDP Shares, Series 1		VRDP Shares, Series 3
	Final Mandatory Redemption Date: 3/1/2040		Final Mandatory Redemption Date: 3/1/2040
	Number of VRDP Shares: 427		Number of VRDP Shares: 427
	Adjustable Dividend Rate: Resets weekly		Adjustable Dividend Rate: Resets weekly
	Optional Tender With Seven-Day Notice for Remarketing		Optional Tender With Seven-Day Notice for Remarketing
	Unconditional Demand Feature: Purchase Agreement with Liquidity Provider		Unconditional Demand Feature: Purchase Agreement with Liquidity Provider
Premium Income 2	VRDP Shares, Series 1		VRDP Shares, Series 4
	Final Mandatory Redemption Date: 12/1/2040		Final Mandatory Redemption Date: 12/1/2040
	Number of VRDP Shares: 740		Number of VRDP Shares: 740
	Adjustable Dividend Rate: Resets weekly		Adjustable Dividend Rate: Resets weekly
	Optional Tender With Seven-Day Notice for Remarketing		Optional Tender With Seven-Day Notice for Remarketing
	Unconditional Demand Feature: Purchase Agreement with Liquidity Provider		Unconditional Demand Feature: Purchase Agreement with Liquidity Provider
Dividend Advantage	VRDP Shares, Series 1		VRDP Shares, Series 5
	Final Mandatory Redemption Date: 6/1/2041		Final Mandatory Redemption Date: 6/1/2041
	Number of VRDP Shares: 1,044		Number of VRDP Shares: 1,044
	Adjustable Dividend Rate: Resets weekly		Adjustable Dividend Rate: Resets weekly
	Optional Tender With Seven-Day Notice for Remarketing		Optional Tender With Seven-Day Notice for Remarketing
	Unconditional Demand Feature: Purchase Agreement with Liquidity Provider		Unconditional Demand Feature: Purchase Agreement with Liquidity Provider
Fund	VRDP Shares, Series 2		VRDP Shares, Series 2
	Final Mandatory Redemption Date: 6/1/2040		Final Mandatory Redemption Date: 6/1/2040

Number of VRDP Shares: 355

Number of VRDP Shares: 355

Adjustable Dividend Rate:
Resets weekly

Adjustable Dividend Rate:
Resets weekly

Optional Tender With Seven-Day Notice for
Remarketing

Optional Tender With Seven-Day Notice
for Remarketing

Unconditional Demand Feature: Purchase
Agreement with Liquidity Provider

Unconditional Demand Feature: Purchase
Agreement with Liquidity Provider

Table of Contents

Following the Reorganizations, based on VRDP shares outstanding as of the date hereof, the Fund will have 2,566 VRDP Shares outstanding in four different VRDP Series. The New VRDP Shares of each VRDP Series will rank on parity with each other and the Fund's outstanding VRDP shares with respect to the payment of dividends by the Fund, will have the same Liquidation Preference (\$100,000) and will be entitled to one vote per share.

Information regarding the Fund's and each Acquired Fund's current short-term and long-term ratings assigned by, as applicable, Fitch, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services is available at www.fitchratings.com, www.moodys.com and www.standardandpoors.com, respectively. No assurances can be given that the current ratings will be maintained.

Terms of the New VRDP Shares. The terms of the New VRDP Shares of the Fund to be issued pursuant to the Reorganizations will be substantially identical, as of the time of the closing of the Reorganizations, to the outstanding VRDP Shares of the Acquired Fund for which they are exchanged. Attached as exhibits to this Information Memorandum are forms of the Statement Establishing and Fixing the Rights and Preferences of VRDP Shares (Statement) and VRDP Purchase Agreement (as defined herein) for each new VRDP Series to be issued in connection with the Reorganizations. You are urged to review the Statements and VRDP Purchase Agreements. This Information Memorandum only summarizes some of the terms and differences of the New VRDP Shares and some differences among the VRDP Series to be issued as part of the Reorganizations, and it is qualified in its entirety by the terms set forth in the Statements and the VRDP Purchase Agreements. Certain of the capitalized terms used herein and not defined have the meanings ascribed to them in the Statements. See Description of the New VRDP Shares.

The New VRDP Shares have the following features, which will be substantially identical to the Acquired Fund VRDP shares as of the closing of the Reorganizations:

the same short-term and long-term rating from one or more rating agencies;

the same Liquidation Preference (\$100,000) and Final Mandatory Redemption Date (as detailed above);

the same terms with respect to the payment of an adjustable dividend rate set weekly by a Remarketing Agent;

the same right to give notice on any business day to tender the securities for remarketing in seven days;

the same terms with respect to the Mandatory Tender for remarketing upon the occurrence of certain events; and

continuing to have the benefit of an unconditional demand feature pursuant to a VRDP Purchase Agreement provided by the same bank acting as Liquidity Provider with respect to each outstanding series of Acquired Fund VRDP Shares (subject to the same provisions regarding replacement or termination as apply to each outstanding series of Acquired Fund VRDP shares).

Differences Among VRDP Series. Upon issuance of the New VRDP Shares, the Fund will have four VRDP Series outstanding. Because the terms of each VRDP Series to be issued in connection with the Reorganizations by the Fund will be substantially identical to the respective

Table of Contents

Acquired Fund VRDP series exchanged therefor, the four VRDP Series will reflect the various existing differences among the Acquired Funds VRDP series and the Fund's outstanding VRDP series, including different banks serving as the Liquidity Provider for different VRDP Series. Dividend rates may vary from series to series, because, for example, the applicable Remarketing Agent may reset the rate for one VRDP Series at a different level from that set by the Remarketing Agent for a different VRDP Series, or the rate for one or more series, but not all series, must reset to the Maximum Rate (or a different level of Maximum Rate) depending on the terms of the applicable Statement. Redemptions prior to the Final Mandatory Redemption Dates for each VRDP Series may occur at different times and in different amounts from series to series due to differences in the respective Statements. In the event that the Fund were to make a partial redemption of VRDP Shares, the redemption may not necessarily be effected pro rata among all VRDP Series then outstanding.

There will be three different banks serving as a Liquidity Provider to the Fund's VRDP Series. [] will serve as the initial Liquidity Provider for VRDP Series 2 and 3. [] and [] will serve as the initial Liquidity Provider for VRDP Series 4 and 5, respectively.] The initial term of the VRDP Purchase Agreement with the Liquidity Provider for each of the new VRDP Series is expected to be no less than the remaining term of the applicable purchase agreement with respect to the VRDP Shares of each Acquired Fund immediately prior to the Reorganizations.

Each VRDP Purchase Agreement has an expiration date (each expiration date being referred to as a Scheduled Termination Date), subject to periodic extension or replacement. There is no assurance a Liquidity Provider will renew, or continue to renew, the VRDP Purchase Agreement or that a replacement will be appointed. Each VRDP Series requires that the Liquidity Provider's Purchase Obligation be renewed upon each Scheduled Termination Date for a term of at least 364 days (or replaced with a purchase obligation with such minimum term), except that for VRDP Series 5, the minimum term for renewal or replacement is 180 days. If a Liquidity Provider does not renew the VRDP Purchase Agreement, all of the VRDP Shares of the relevant VRDP Series will be subject to Mandatory Purchase by the Liquidity Provider prior to the expiration of the Purchase Obligation.

Remarketing. The terms of the remarketing for the New VRDP Shares will be the same as for the Acquired Fund VRDP shares. Shareholders of the New VRDP Shares will have the option to tender New VRDP Shares for remarketing on any Business Day not less than seven days after delivery of a Notice of Tender (as defined herein) to a tender and paying agent appointed by the Fund (the Tender and Paying Agent), with the consent of the Liquidity Provider at the Purchase Price. In addition, the New VRDP Shares will be subject to mandatory tender for remarketing by the Remarketing Agent at the Purchase Price in the circumstances set forth in the statement. The Remarketing Agent will use its best efforts in each case to remarket any New VRDP Shares so tendered. If no remarketing occurs on or before the relevant Purchase Date, or New VRDP Shares of any series remain unsold pursuant to an attempted remarketing, the Tender and Paying Agent will deliver all such unsold New VRDP Shares that have been delivered to the Tender and Paying Agent to the applicable Liquidity Provider for purchase on such Purchase Date. In addition, the New VRDP Shares will be subject to mandatory purchase by the Liquidity Provider for that VRDP Series at the Purchase Price for such VRDP Shares in the event of termination of the VRDP Purchase Agreement for such VRDP Series and the Fund has not entered into an Alternate VRDP Purchase Agreement prior to such termination. The Purchase Price with respect to a VRDP Series is equal to the Liquidation Preference of New VRDP Shares to be purchased on a Purchase Date *plus* any accumulated but unpaid dividends (whether or not earned or declared), if any, to, but excluding, the relevant Purchase Date. The date designated for (i) purchase of New VRDP Shares with respect to a VRDP Series pursuant to an optional or mandatory tender for

Table of Contents

remarketing or (ii) mandatory purchase by the Liquidity Provider is referred to herein as a Purchase Date.

The Remarketing Agent for each new VRDP Series is expected to be the same remarketing agent as the remarketing agent for your Acquired Fund VRDP Shares.

Unconditional Demand Feature. Each New VRDP Series will have the benefit of an unconditional demand feature pursuant to a purchase obligation, provided by the same bank that currently provides such demand feature to your Acquired Fund VRDP Shares (the Liquidity Provider), pursuant to a VRDP Purchase Agreement (the VRDP Purchase Agreement). The purchase obligation of the Liquidity Provider is transferable only in connection with a transfer of VRDP Shares; it is not separately transferable. Because the Fund will enter into separate VRDP Fee Agreements with the existing liquidity providers for each series of Acquired Fund VRDP shares, the Fund will be subject to any portfolio restrictions, consents or other requirements of multiple entities.

Dividends and Rate Periods. It is anticipated that the Reorganizations will close on or about April 6, 2012 or such other date as the parties may agree. The applicable dividend rate of the New VRDP Shares commencing on, and including, the date of issuance, to, and including, the next succeeding Rate Determination Date, will be equal to the dividend rate in effect for the Acquired Fund VRDP Shares immediately prior to the closing. Generally, the dividend rate will be reset weekly by the Remarketing Agent. Dividends on New VRDP Shares will be declared daily and generally paid monthly on the first Business Day of each month, [and are expected to be exempt from regular federal income tax, the federal alternative minimum tax applicable to individuals and California personal income tax, with exceptions for certain portions that may represent capital gains or ordinary income, if any, generally from portfolio transactions and market discount.

Dividends on the New VRDP Shares will be declared daily to the Holders thereof at the close of business on each such day and paid on each Dividend Payment Date to the Holders thereof at the close of business on the day immediately preceding such Dividend Payment Date. In connection with any transfer of New VRDP Shares, the transferor as Beneficial Owner of New VRDP Shares will be deemed to have agreed pursuant to the terms of the New VRDP Shares to transfer to the transferee the right to receive from the Fund any dividends declared and unpaid for each day prior to the transferee becoming the Beneficial Owner of the New VRDP Shares in exchange for payment of the Purchase Price for such New VRDP Shares by the transferee.

Maximum Rate. The Maximum Rate for the New VRDP Shares on any Rate Determination Date or in respect of the occurrence of a failed remarketing for the VRDP Shares will be the Applicable Percentage of the Applicable Base Rate plus the Applicable Spread. The terms of the Maximum Rate, including the Applicable Percentage of the Applicable Base Rate and Applicable Spread, are described in the Statements. The Maximum Rate for VRDP Shares will depend on the long-term rating assigned to the VRDP Shares, the length of the Rate Period and whether or not the Fund has given notification to the Remarketing Agent and the Tender and Paying Agent that any ordinary income or capital gains will be included in the dividend on VRDP Shares for that Rate Period.

The New VRDP Shares will be subject to mandatory redemption by the Fund on the date set forth in the chart above, unless earlier redeemed or repurchased by the Fund.

Table of Contents

Investing in VRDP Shares involves risks. See Risk Factors beginning on page 40 of this Information Memorandum.

(continued on next page)

This Information Memorandum does not constitute an offer to exchange or otherwise purchase any Acquired Fund VRDP Shares. This Information Memorandum has not been reviewed by any federal or state securities commission or any regulatory authority of any jurisdiction, nor has any such commission or authority passed upon the accuracy or adequacy of this Information Memorandum. Any representation to the contrary is unlawful and may be a criminal offense.

The date of this Information Memorandum is January , 2012.

Table of Contents

(continued from preceding page)

The Fund's investment objectives are to provide current income exempt from regular federal income tax, the federal alternative minimum tax applicable to individuals and California income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund's investment adviser, Nuveen Fund Advisors, Inc. (the Investment Adviser) or sub-adviser, Nuveen Asset Management, LLC (the Sub-Adviser), believes are underrated or undervalued or that represent municipal market sectors that are undervalued. Under normal circumstances, the Fund will invest at least 80% of its net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) or preferred shares outstanding (Managed Assets), in municipal securities and other related investments the income from which is exempt from federal and California income taxes and are covered by insurance guaranteeing the timely payment of principal and interest thereon. Inverse floaters, whose underlying bonds are covered by insurance guaranteeing the timely payment of principal and interest thereon, are included in the above-referenced 80% test. As a non-fundamental policy, the Fund invests at least 80% of its Managed Assets in municipal securities and other related investments the income from which is exempt from the federal alternative minimum tax applicable to individuals. Under normal circumstances, the municipal securities in which the Fund invests will be, at the time of purchase, (i) rated BBB/Baa or better by a nationally recognized statistical rating organization (NRSRO) or covered by insurance from insurers with a claims-paying ability rated BBB/Baa or better by an NRSRO; (ii) unrated, but judged to be of comparable quality by the Investment Adviser; or (iii) backed by an escrow or trust account containing sufficient U.S. Government or U.S. Government agency securities to ensure timely payment of principal and interest. There can be no assurance that the Fund will achieve its investment objectives.

This Information Memorandum summarizes the current investment objectives and policies of the Fund. Certain of these policies are subject to change if approved at the Fund's annual meeting of shareholders on February 24, 2011.

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

THE NEW VRDP SHARES REPRESENT INVESTMENTS IN THE FUND AND DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED BY, ANY OF THE FUND'S INVESTMENT ADVISER, THE LIQUIDITY PROVIDERS, THE REMARKETING AGENTS OR THE TENDER AND PAYING AGENT.

Table of Contents

This Information Memorandum is furnished by the Fund on a confidential basis, and sets forth the terms of the New VRDP Shares. The information contained or incorporated by reference in this Information Memorandum has been provided by the Fund and other sources identified herein.

The New VRDP Shares have not been registered under the Securities Act of 1933, as amended (the Securities Act), or any state securities laws, and unless so registered, may not be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the VRDP Shares to be issued in the Reorganizations are being offered and sold only to holders of VRDP Shares of the Acquired Funds that are qualified institutional buyers (as defined in Rule 144A under the Securities Act) in accordance with the exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act and are subject to certain restrictions on transfer as further described under Notice to Investors.

This Information Memorandum does not constitute an offer to exchange or otherwise purchase any Acquired Fund VRDP Shares. The offer for the New VRDP Shares is being made only to the holders of Acquired Fund VRDP Shares in connection with the Reorganization of each Acquired Fund into the Fund. This Information Memorandum is personal to each investor to which it is made available and has been prepared solely for use in connection with the Reorganizations. Distribution of this Information Memorandum to any person other than a beneficial owner of Acquired Fund VRDP Shares and those persons, if any, retained to advise such beneficial owner is not authorized.

The New VRDP Shares will be issued in book-entry form, as global securities (the global securities). The global securities will be deposited with, or on behalf of, The Depository Trust Company (DTC) and registered in the name of Cede & Co., the nominee of DTC. Beneficial interests in the global securities will be held only through DTC and any of its participants. Unless the context otherwise requires, references in this Information Memorandum to VRDP shareholders or New VRDP shareholders include the Beneficial Owners of interests in the VRDP Shares and references to the VRDP Shares or New VRDP Shares include any beneficial interest therein. See Book-Entry Procedures and Settlement for further discussion of these matters.

This Information Memorandum contains summaries and other information believed to be accurate as of the date hereof with respect to certain terms of certain documents, but reference is made to the actual documents (copies of which will be made available on a confidential basis to owners of VRDP Shares upon request to the Fund) for complete information with respect thereto, and all such summaries are qualified in their entirety by such reference.

The distribution of this Information Memorandum in certain jurisdictions may be restricted by law. Persons in possession of this Information Memorandum are required to inform themselves about and to observe any such restrictions. This Information Memorandum does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation.

No action has been taken by the Fund that would permit an offering of the VRDP Shares or the circulation or distribution of this Information Memorandum or any other material in relation to the Fund, the Liquidity Provider or the New VRDP Shares in any jurisdiction where action for that purpose is required.

Table of Contents

THIS INFORMATION MEMORANDUM IS FOR INFORMATIONAL PURPOSES ONLY. INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE FUND, THE APPLICABLE LIQUIDITY PROVIDER AND THE TERMS OF THE NEW VRDP SHARES, INCLUDING THE MERITS AND RISKS INVOLVED. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN NEW VRDP SHARES FOR AN INDEFINITE PERIOD OF TIME.

NONE OF THE FUND, ANY ACQUIRED FUND, ANY LIQUIDITY PROVIDER OR ANY REMARKETING AGENT OR THEIR RESPECTIVE AFFILIATES MAKES ANY REPRESENTATION REGARDING THE LEGALITY OF INVESTMENT IN THE NEW VRDP SHARES BY ANY PERSON UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS OR THE PROPER CLASSIFICATION OF SUCH AN INVESTMENT THEREUNDER.

THE CONTENTS OF THIS INFORMATION MEMORANDUM ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS AND TAX ADVICE.

Notwithstanding anything to the contrary contained in this Information Memorandum or any other express or implied agreement to the contrary, each beneficial owner of VRDP Shares (and each employee, representative or other agent of each beneficial owner) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of an investment in the New VRDP Shares and all materials of any kind that are provided to the beneficial owner of VRDP Shares relating to such tax treatment and tax structure (as such terms are defined in U.S. Treasury regulation section 1.6011-4).

In this Information Memorandum, references to **U.S. Dollars**, **Dollars** and **\$** are to United States dollars.

FORWARD LOOKING STATEMENTS

Any projections, forecasts and estimates contained or incorporated by reference herein are forward looking statements and are based upon certain assumptions. Projections, forecasts and estimates are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying any projections, forecasts or estimates will not materialize or will vary significantly from actual results. Actual results may vary from any projections, forecasts and estimates and the variations may be material. Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, and the timing and frequency of defaults on underlying investments. Consequently, the inclusion of any projections, forecasts and estimates herein should not be regarded as a representation by the Fund, any Liquidity Provider, any Remarketing Agent or any of their respective affiliates or any other person or entity of the results that will actually be achieved by the Fund. None of the Fund, any Liquidity Provider, the Remarketing Agent or their respective affiliates has any obligation to update or otherwise revise any projections, forecasts and estimates including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Table of Contents

TABLE OF CONTENTS

<u>Notice to Investors</u>	1
<u>Summary</u>	4
<u>Description of the New VRDP Shares</u>	6
<u>Leverage</u>	9
<u>The Purchase Obligation</u>	10
<u>Liquidity Provider</u>	12
<u>Book-Entry Procedures and Settlement</u>	12
<u>The Fund's Investments</u>	14
<u>Management of the Fund</u>	39
<u>Risk Factors</u>	41
<u>Certain Income Tax Considerations</u>	48
<u>How the Fund Manages Portfolio Risk</u>	56
<u>Description of Common Shares</u>	56
<u>Net Asset Value</u>	57
<u>Certain Provisions in the Declaration of Trust and By-Laws</u>	57
<u>Repurchase of Common Shares; Conversion to Open-End Fund</u>	59
<u>Custodian, Transfer Agent, Dividend Disbursing Agent, Redemption Agent and Remarketing Agent</u>	60
<u>Independent Registered Public Accounting Firm</u>	60
<u>Available Information</u>	60
Appendix A	
<u>Form of Statement Establishing and Fixing the Rights and Preferences of Variable Rate Demand Preferred Shares for VRDP Series 3, 4 and 5</u>	A-1
Appendix B	
<u>Form of Variable Rate Demand Preferred Shares Purchase Agreement for VRDP Series 3, 4 and 5 (each including Form of Notice of Tender and Form of Notice of Revocation)</u>	B-1

Table of Contents

NOTICE TO INVESTORS

Each person acquiring New VRDP Shares, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Fund, the applicable Liquidity Provider and the applicable Remarketing Agent as follows:

- (1) It understands and acknowledges that the securities have not been registered under the Securities Act or any other applicable securities law, are being offered for sale pursuant to Section 4(2) of the Securities Act, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
- (2) It is a qualified institutional buyer (QIB), as defined in Rule 144A promulgated under the Securities Act, and is acquiring the securities for its own account or for the account of another QIB.
- (3) It acknowledges that none of the Fund, any Liquidity Provider, any Remarketing Agent or any person representing any of the foregoing has made any representation to it with respect to the Fund, any Liquidity Provider or any Remarketing Agent or the offering or sale of any securities other than the information contained or incorporated by reference in this Information Memorandum, which has been delivered to it and upon which it is relying in making its investment decision with respect to the securities. Further, it acknowledges that with respect to the information supplied by the Liquidity Provider for inclusion in this Information Memorandum, no representation is made by the Fund as to the accuracy or completeness of such information. None of the Liquidity Providers accepts responsibility for the accuracy or completeness of this Information Memorandum or the Statements or any other information or disclosure contained or incorporated by reference herein, or omitted herefrom or in the Statements. In addition, no representation is made regarding New VRDP Shares or the advisability of investing in New VRDP Shares. Moreover, it acknowledges that it has had access to such financial and other information concerning the Fund and the applicable Liquidity Provider and the securities as it has deemed necessary in connection with its decision to purchase the securities offered hereby, including an opportunity to ask questions of and request information from the Fund and the applicable Liquidity Provider.
- (4) It is purchasing the securities for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act, subject to any requirements of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such securities pursuant to Rule 144A or any exemption from registration available under the Securities Act. It agrees on its own behalf and on behalf of any investor account for which it is purchasing the securities and each subsequent holder or owner of the securities by its acceptance thereof will agree to offer, sell or otherwise transfer such securities only (a) to the Fund, (b) to or through a Remarketing Agent in a Remarketing, (c) to the applicable Liquidity Provider pursuant to the VRDP Purchase Agreement or (d) for so long as the securities offered hereby are eligible for resale pursuant to Rule 144A, but subject to the restrictions on transfer, outside of a Remarketing, described herein, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A, subject in each of the

Table of Contents

foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control. Each purchaser acknowledges that each New VRDP Share will contain a legend substantially to the following effect:

THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR ANY STATE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, ONLY (A) TO THE FUND, (B) TO OR THROUGH A REMARKETING AGENT IN A REMARKETING, (C) TO THE APPLICABLE LIQUIDITY PROVIDER PURSUANT TO THE VRDP PURCHASE AGREEMENT OR (D) FOR SO LONG AS THE SECURITIES OFFERED HEREBY ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, BUT SUBJECT TO THE RESTRICTIONS ON TRANSFER, OUTSIDE OF A REMARKETING APPLICABLE TO THIS SECURITY, TO A PERSON IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A OR ANY EXEMPTION FROM REGISTRATION AVAILABLE UNDER THE SECURITIES ACT. THE PURCHASE OBLIGATION IS TRANSFERABLE ONLY IN CONNECTION WITH A TRANSFER OF NEW VRDP SHARES; IT IS NOT SEPARATELY TRANSFERABLE.

NUVEEN FUND ADVISORS, INC. (INVESTMENT ADVISER), AFFILIATED PERSONS OF THE INVESTMENT ADVISER (AS DEFINED IN SECTION 2(a)(3) OF THE 1940 ACT) (OTHER THAN THE FUND, IN THE CASE OF A PURCHASE OF NEW VRDP SHARES WHICH ARE TO BE CANCELLED WITHIN 10 DAYS OF PURCHASE BY THE FUND), AND PERSONS OVER WHICH THE INVESTMENT ADVISER, OR AFFILIATED PERSONS OF THE INVESTMENT ADVISER (AS DEFINED IN SECTION 2(a)(3) OF THE 1940 ACT), EXERCISE DISCRETIONARY INVESTMENT OR VOTING AUTHORITY (OTHER THAN THE FUND, IN THE CASE OF A PURCHASE OF NEW VRDP SHARES WHICH ARE TO BE CANCELLED WITHIN 10 DAYS OF PURCHASE BY THE FUND), ARE NOT PERMITTED TO PURCHASE NEW VRDP SHARES WITHOUT THE PRIOR WRITTEN CONSENT OF THE APPLICABLE LIQUIDITY PROVIDER AND ANY SUCH PURCHASES SHALL BE VOID *AB INITIO*; PROVIDED, HOWEVER, THAT PURCHASES OF NEW VRDP SHARES MAY BE MADE BY BROKER-DEALERS THAT ARE AFFILIATED PERSONS OF THE INVESTMENT ADVISER IN RISKLESS PRINCIPAL TRANSACTIONS WITH RESPECT TO SUCH PURCHASES OF NEW VRDP SHARES.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF SHALL BE DEEMED TO HAVE AGREED THAT, IN CONNECTION WITH ANY TRANSFER OF NEW VRDP SHARES, IT IS TRANSFERRING TO THE TRANSFEREE THE RIGHT TO RECEIVE FROM THE FUND ANY DIVIDENDS DECLARED AND UNPAID FOR EACH DAY PRIOR TO THE TRANSFEREE BECOMING THE BENEFICIAL OWNER OF THE NEW VRDP SHARES IN EXCHANGE FOR PAYMENT OF THE PURCHASE PRICE FOR SUCH NEW VRDP SHARES BY THE TRANSFEREE.

Table of Contents

(5) It acknowledges that the Fund, any Liquidity Provider and any Remarketing Agent and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by its purchase of securities are no longer accurate, it shall promptly notify the Fund, the applicable Liquidity Provider and any Remarketing Agent. If it is acquiring any securities as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

Table of Contents**SUMMARY**

This is only a summary. You should review the more detailed information contained elsewhere in this Information Memorandum and the documents incorporated by reference or otherwise summarized in this Information Memorandum, including the information set forth in the sections Risk Factors, How the Fund Manages Portfolio Risk and The Fund's Investments Derivatives and Hedging Strategies, the Forms of Statement Establishing and Fixing the Rights and Preferences of VRDP Shares (each, a Statement), attached hereto as Appendix A, and the Forms of VRDP Purchase Agreement, attached hereto as Appendix B. Certain of the capitalized terms used herein and not defined herein shall have the meanings ascribed to them in the Statement.

The Fund Nuveen Insured California Tax-Free Advantage Municipal Fund (the Fund) is a non-diversified, closed-end management investment company. The Fund's common shares, \$.01 par value (Common Shares), are traded on the NYSE Amex under the symbol NKX. As of [REDACTED], 2011, the Fund had [REDACTED] Common Shares outstanding and net assets applicable to Common Shares of \$ [REDACTED].

The Offering This Information Memorandum is provided for information purposes in connection with the offering of the New VRDP Shares for Series 3, 4 and 5 of the Fund pursuant to the reorganizations of Nuveen Insured California Premium Income Fund, Inc. (Premium Income), Nuveen Insured California Premium Income Fund 2, Inc. (Premium Income 2) and Nuveen Insured California Dividend Advantage Municipal Fund (Dividend Advantage) (each, an Acquired Fund and collectively, the Acquired Funds) into the Fund (each, a Reorganization and collectively, the Reorganizations). Each New VRDP Share has a liquidation preference of \$100,000 per share (the Liquidation Preference).

This Information Memorandum is provided exclusively to VRDP shareholders of the Acquired Funds who were holders of Acquired Fund VRDP shares as of December 28, 2011. Upon the closing of the Reorganizations, each Acquired Fund will transfer substantially all of its assets to the Fund in exchange for common and preferred shares of the Fund, and the assumption by the Fund of substantially all of the liabilities of the Acquired Fund. Each Acquired Fund will then be liquidated, dissolved and terminated in accordance with its declaration of trust or articles of incorporation, as applicable. The Fund will issue a separate series of New VRDP Shares corresponding to each series of Acquired Fund VRDP Shares. Holders of VRDP Shares of each Acquired Fund will receive on a one-for-one basis shares of the applicable series of New VRDP Shares of the Fund, in exchange for VRDP Shares of the Acquired Fund held immediately prior to the Reorganization.

Description of the New VRDP Shares The terms of the New VRDP Shares of the Fund to be issued pursuant to the Reorganizations will be substantially identical, as of the time of the closing of the Reorganizations, to the outstanding VRDP Shares of the Acquired Fund for which they are exchanged. Also, the terms of the remarketing for the New VRDP Shares will be the same as for the Acquired Fund VRDP shares. The description of the New VRDP

Table of Contents

Shares is qualified in its entirety by the terms set forth in the Statements and the VRDP Purchase Agreements for each series of New VRDP Shares (each, a "VRDP Series"). See Description of the New VRDP Shares.

Liquidity Providers; the Purchase Obligation

Each VRDP Series will have the benefit of an unconditional demand feature pursuant to a purchase obligation, provided by the same bank that provided such demand feature for your Acquired Fund VRDP Shares (the "Liquidity Provider"), pursuant to a VRDP Purchase Agreement. The initial term of the VRDP Purchase Agreement with the Liquidity Provider for each of the New VRDP Series is expected to be no less than the remaining term of the applicable purchase agreement with respect to the VRDP Shares of each Acquired Fund immediately prior to the Reorganizations. See "The Purchase Obligation" and "Liquidity Provider."

Investment Objectives and Policies

The Fund's investment objectives are to provide current income exempt from regular federal income tax, the federal alternative minimum tax applicable to individuals and California income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Investment Adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued. See "The Fund's Investments" "Investment Objectives and Policies."

There can be no assurance that the Fund will achieve its investment objectives.

Management of the Fund

Nuveen Fund Advisors, Inc. is the Fund's investment adviser (the "Investment Adviser"). The Investment Adviser, a registered investment adviser with the Securities and Exchange Commission, is a wholly-owned subsidiary of Nuveen Investments, Inc. ("Nuveen" or "Nuveen Investments"). The Investment Adviser has selected Nuveen Asset Management, LLC (the "Sub-Adviser") to serve as the sub-adviser to the Fund. See "Management of the Fund."

Taxation

The 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 generally does not expect to be subject to federal income tax.

Under normal circumstances, the Fund will invest at least 80% of its net assets in municipal securities that pay interest exempt from regular federal and California personal income tax and the federal alternative minimum tax applicable to individuals. Accordingly, the dividends paid by the Fund will ordinarily be similarly exempt. To the extent the Fund invests in municipal securities of issuers outside of California, dividends paid by the Fund may be subject to California income taxes. Although the Fund expects that under normal circumstances it will not invest in municipal securities the interest on which is subject to the federal alternative minimum tax, at times a

Table of Contents

portion of the income from municipal securities may be subject to the federal alternative minimum tax. See [Certain Income Tax Considerations](#) for a detailed discussion of the foregoing matters.

Governing Law

The Declaration and the Statement are governed by the laws of the Commonwealth of Massachusetts.

Each VRDP Purchase Agreement, Tender and Paying Agent Agreement and Remarketing Agreement are governed by the laws of the State of New York.

Risk Factors

Risk is inherent in all investing. You should carefully consider the risks of investing in VRDP Shares. See [Risk Factors](#), [The Fund's Investments](#), [Investment Objectives and Policies](#) and [Derivatives and Hedging Strategies](#) and [How the Fund Manages Portfolio Risk](#).

DESCRIPTION OF THE NEW VRDP SHARES

The terms of the New VRDP Shares of the Fund to be issued pursuant to the Reorganizations will be substantially identical, as of the time of the closing of the Reorganizations, to the outstanding VRDP Shares of the Acquired Fund for which they are exchanged. Attached as exhibits to this Information Memorandum are forms of the Statement Establishing and Fixing the Rights and Preferences of VRDP Shares (each, a Statement) and VRDP Purchase Agreement (as defined herein) for each new VRDP Series to be issued in connection with the Reorganizations. You are urged to review the Statements and VRDP Purchase Agreements. This Information Memorandum only summarizes some of the terms and differences of the new VRDP Shares and some differences among the VRDP Series to be issued as part of the Reorganizations, and it is qualified in its entirety by the terms set forth in the Statements and the VRDP Purchase Agreements. Certain of the capitalized terms used herein and not defined have the meanings ascribed to them in the Statement. See [Description of the New VRDP Shares](#).

The New VRDP Shares have the following features, which will be substantially identical to the Acquired Fund VRDP shares, as of the closing of the Reorganizations:

the same short-term and long-term rating from one or more rating agencies;

the same Liquidation Preference (\$100,000) and Final Mandatory Redemption Date;

the same terms with respect to the payment of an adjustable dividend rate set weekly by a Remarketing Agent;

the same right to give notice on any business day to tender the securities for remarketing in seven days;

the same terms with respect to the Mandatory Tender for remarketing upon the occurrence of certain events; and

Table of Contents

continuing to have the benefit of an unconditional demand feature pursuant to a VRDP Purchase Agreement provided by the same bank currently acting as Liquidity Provider with respect to each outstanding series of Acquired Fund VRDP Shares (subject to the same provisions regarding replacement or termination as apply to each outstanding series of Acquired Fund VRDP Shares).

Following the Reorganizations, based on VRDP shares outstanding as of the date hereof, the Fund will have 2,566 VRDP Shares outstanding in the aggregate in four different VRDP Series. The New VRDP Shares of each VRDP Series will rank on parity with each other and the Fund's outstanding VRDP shares with respect to the payment of dividends by the Fund, will have the same Liquidation Preference (\$100,000) and will be entitled to one vote per share.

Differences Among VRDP Series. Upon issuance of the New VRDP Shares, the Fund will have four VRDP Series outstanding. Because the terms of each VRDP Series to be issued in connection with the Reorganizations by the Fund will be substantially identical to the respective Acquired Fund VRDP series exchanged therefor, the four VRDP Series will reflect the various existing differences among the Acquired Funds VRDP series and the Fund's outstanding VRDP series, including different banks serving as the Liquidity Provider for different VRDP Series. Dividend rates may vary from series to series, because, for example, the applicable Remarketing Agent may reset the rate for one VRDP Series at a different level from that set by the Remarketing Agent for a different VRDP Series, or the rate for one or more series, but not all series, must reset to the Maximum Rate (or a different level of Maximum Rate) depending on the terms of the applicable Statement. Redemptions prior to the Final Mandatory Redemption Dates for each VRDP Series may occur at different times and in different amounts from series to series due to differences in the respective Statements. In the event that the Fund were to make a partial redemption of VRDP Shares, the redemption may not necessarily be effected pro rata among all VRDP Series then outstanding.

There will be three different banks serving as a Liquidity Provider to the Fund's VRDP Series. [] will serve as the initial Liquidity Provider for VRDP Series 2 and 3. [] and [] will serve as the initial Liquidity Provider for VRDP Series 4 and 5, respectively.] The initial term of the VRDP Purchase Agreement with the Liquidity Provider for each of the new VRDP Series is expected to be no less than the remaining term of the applicable purchase agreement with respect to the VRDP Shares of each Acquired Fund immediately prior to the Reorganizations.

Each VRDP Purchase Agreement has an expiration date (each expiration date being referred to as a Scheduled Termination Date), subject to periodic extension or replacement. There is no assurance a Liquidity Provider will renew, or continue to renew, the VRDP Purchase Agreement or that a replacement will be appointed. Each VRDP Series requires that the Liquidity Provider's Purchase Obligation be renewed upon each Scheduled Termination Date for a term of at least 364 days (or replaced with a purchase obligation with such minimum term), except that for VRDP Series 5, the minimum term for renewal or replacement is 180 days. If a Liquidity Provider does not renew the VRDP Purchase Agreement, all of the VRDP Shares of the relevant VRDP Series will be subject to Mandatory Purchase by the Liquidity Provider prior to the expiration of the Purchase Obligation.

Remarketing. The terms of the remarketing for the New VRDP Shares will be the same as for the Acquired Fund VRDP shares. Shareholders of the New VRDP Shares will have the option to tender New VRDP Shares for remarketing on any Business Day not less than seven days after delivery of a Notice of Tender (as defined herein) to a tender and paying agent appointed by the Fund (the Tender

Table of Contents

and Paying Agent), with the consent of the Liquidity Provider (as defined herein) at the Purchase Price. In addition, the New VRDP Shares will be subject to mandatory tender for remarketing by the Remarketing Agent at the Purchase Price as set forth in the Statements. The Remarketing Agent will use its best efforts in each case to remarket any New VRDP Shares so tendered. If no remarketing occurs on or before the relevant Purchase Date, or the New VRDP Shares remain unsold pursuant to an attempted remarketing, the Tender and Paying Agent will deliver all unsold New VRDP Shares that have been delivered to the Tender and Paying Agent to the Liquidity Provider for purchase on such Purchase Date. In addition, the New VRDP Shares will be subject to mandatory purchase by the Liquidity Provider for that VRDP Series at the Purchase Price for such VRDP Shares in the event of termination of the VRDP Purchase Agreement for such VRDP Series and the Fund has not entered into an Alternate VRDP Purchase Agreement (as defined herein) prior to such termination. The Purchase Price with respect to a VRDP Series is equal to the Liquidation Preference of New VRDP Shares to be purchased on a Purchase Date *plus* any accumulated but unpaid dividends (whether or not earned or declared), if any, to, but excluding, the relevant Purchase Date. The date designated for (i) purchase of New VRDP Shares with respect to a VRDP Series pursuant to an optional or mandatory tender for remarketing or (ii) mandatory purchase by the Liquidity Provider is referred to herein as a Purchase Date.

The Remarketing Agent for each New VRDP Series is expected to be the same remarketing agent as the remarketing agent for your Acquired Fund VRDP Shares.

Unconditional Demand Feature. Each New VRDP Series will have the benefit of an unconditional demand feature pursuant to a purchase obligation, provided by the same bank that currently provides such demand feature to your Acquired Fund VRDP Shares (the Liquidity Provider), pursuant to a VRDP Purchase Agreement (the VRDP Purchase Agreement). The purchase obligation of the Liquidity Provider is transferable only in connection with a transfer of VRDP Shares; it is not separately transferable. Because the Fund will enter into separate VRDP Fee Agreements with the existing liquidity providers for each series of Acquired Fund VRDP shares, the Fund will be subject to any portfolio restrictions, consents or other requirements of multiple entities.

Dividends and Rate Periods. It is anticipated that the Reorganizations will close on or about April 6, 2012 or such other date as the parties may agree. The applicable dividend rate of the New VRDP Shares commencing on, and including, the date of issuance, to, and including, the next succeeding seven day period, will be equal to the dividend rate in effect for the Acquired Fund VRDP Shares immediately prior to the closing. Generally, the dividend rate will be reset weekly by the Remarketing Agent. Dividends on New VRDP Shares will be declared daily and generally paid monthly on the first Business Day of each month, and are expected to be exempt from regular federal income tax, the federal alternative minimum tax applicable to individuals and California personal income tax, with exceptions for certain portions that may represent capital gains and ordinary income, if any, generally from portfolio transactions and market discount.

Dividends on the New VRDP Shares will be declared daily to the Holders thereof at the close of business on each such day and paid on each Dividend Payment Date to the Holders thereof at the close of business on the day immediately preceding such Dividend Payment Date. In connection with any transfer of New VRDP Shares, the transferor as Beneficial Owner of New VRDP Shares will be deemed to have agreed pursuant to the terms of the New VRDP Shares to transfer to the transferee the right to receive from the Fund any dividends declared and unpaid for each day prior to the transferee becoming the Beneficial Owner of the New VRDP Shares in exchange for payment of the Purchase Price for such New VRDP Shares by the transferee.

Table of Contents

Maximum Rate. The Maximum Rate for the New VRDP Shares on any Rate Determination Date or in respect of the occurrence of a failed remarketing for the VRDP Shares will be the Applicable Percentage of the Applicable Base Rate plus the Applicable Spread. The terms of the Maximum Rate, including the Applicable Percentage of the Applicable Base Rate and Applicable Spread, are described in the Statements. The Maximum Rate for VRDP Shares will depend on the long-term rating assigned to the VRDP Shares, the length of the Rate Period and whether or not the Fund has given notification to the Remarketing Agent and the Tender and Paying Agent that any ordinary income or capital gains will be included in the dividend on VRDP Shares for that Rate Period.

LEVERAGE

The Fund and the Acquired Funds currently 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 and (b) the issuance of preferred shares such as VRDP Shares. The Fund and Acquired Funds currently engage in leverage through the issuance of preferred shares and the use of inverse floaters. Certain important ratios related to the Fund's and Acquired Funds' use of leverage as of August 31 for the last three fiscal years is set forth below:

Fund	2011	2010	2009
Asset Coverage Ratio	331.13%	341.88%	325.99%
Structural Leverage Ratio ⁽¹⁾	30.20%	29.25%	30.68%
Effective Leverage Ratio ⁽²⁾	35.31%	34.28%	35.82%
Premium Income	2011	2010	2009
Asset Coverage Ratio	344.12%	357.28%	316.27%
Structural Leverage Ratio ⁽¹⁾	29.06%	27.99%	31.62%
Effective Leverage Ratio ⁽²⁾	38.24%	37.07%	39.84%
Premium Income 2	2011	2010	2009
Asset Coverage Ratio	315.86%	325.75%	300.60%
Structural Leverage Ratio ⁽¹⁾	31.66%	30.70%	33.27%
Effective Leverage Ratio ⁽²⁾	36.93%	35.92%	37.68%
Dividend Advantage	2011	2010	2009
Asset Coverage Ratio	325.73%	312.14%	307.04%
Structural Leverage Ratio ⁽¹⁾	30.70%	32.04%	32.57%
Effective Leverage Ratio ⁽²⁾	36.66%	39.23%	35.59%

- (1) Structural leverage ratio consists of preferred shares or debt issued by the Fund. Both of these are part of the Fund's and Acquired Funds' capital structure. Structural leverage is sometimes referred to as 1940 Act Leverage and is subject to asset coverage limits set in the 1940 Act.
- (2) Effective leverage ratio is defined above. Currently, the leverage effects of Tender Option Bond (TOB) inverse floater holdings, in addition to any Structural leverage, are included in effective leverage values.

Table of Contents

THE PURCHASE OBLIGATION

The following is a brief description of the terms of the VRDP Purchase Agreements. This description does not purport to be complete and is subject to and qualified in its entirety by reference to the forms of the VRDP Purchase Agreement in Appendix B.

As long as VRDP Shares of any Series of the Fund are Outstanding, the Fund will maintain a VRDP Purchase Agreement for such VRDP Series providing for a Purchase Obligation with a Liquidity Provider with short-term debt ratings in one of the two highest ratings categories from the Requisite NRSROs or such other short-term debt ratings as may be required for the VRDP Shares to satisfy the eligibility criteria under Rule 2a-7 under the 1940 Act on an ongoing basis to the extent that the Fund can do so on a commercially reasonable basis as determined in the sole discretion of the Board of Trustees.

Pursuant to the applicable VRDP Purchase Agreement, the Liquidity Provider will purchase at the Purchase Price any Outstanding VRDP Shares of the applicable Series that are properly tendered in accordance with the applicable Statement and VRDP Purchase Agreement, including any VRDP Shares that are the subject of a failed remarketing on the Purchase Date for an Optional Tender or a Mandatory Tender for remarketing, and all Outstanding VRDP of the applicable Series on the Purchase Date for a Mandatory Purchase Event. The obligation of a Liquidity Provider to purchase VRDP Shares pursuant to the VRDP Purchase Agreement will run to the benefit of VRDP shareholders for that VRDP Series and will be unconditional and irrevocable in accordance with the provisions of the VRDP Purchase Agreement, without regard to, without limitation, any failure of the representations, warranties, agreements or performance of the Tender and Paying Agent set forth in the VRDP Purchase Agreement or of the Fund set forth in the VRDP Fee Agreement or the termination of the obligations of the Remarketing Agent under the Remarketing Agreement. The provisions of the VRDP Purchase Agreement with respect to each VRDP Series of the Fund that will be outstanding following the Reorganizations are substantially identical, except that, as set forth in the definition of the term Mandatory Purchase Event, for Series 5, the minimum term for renewal or replacement of the VRDP Purchase Agreement is 180 days, while for each other Series, the minimum term for renewal or replacement of the VRDP Purchase Agreement is 364 days.

VRDP Fee Agreement

Pursuant to the VRDP Fee Agreement with each Liquidity Provider with respect to each Series of VRDP Shares of the Fund, the Fund will pay to the Liquidity Provider a monthly fee in consideration of the Liquidity Provider's agreement to provide the Purchase Obligation for such VRDP Series under the applicable VRDP Purchase Agreement. Each VRDP Fee Agreement is expected to have substantially the same terms and conditions as the corresponding existing agreement with the Acquired Funds, including certain representations, warranties and covenants, including the covenant that the Fund will not agree or consent to any amendment, supplement, modification or repeal of the VRDP Fee Agreement, the Declaration, the Statement, the VRDP Shares, the By-Laws, the Remarketing Agreement or the Tender and Paying Agent Agreement (or any provision therein, nor waive any provision thereof), to which it is a party (or to which its consent is required), without the prior written consent of the Liquidity Provider, and the Liquidity Provider, without the prior written consent of the Fund, will not agree or consent to any amendment, supplement, modification or repeal of the VRDP Purchase Agreement, nor waive any provision thereof.

Table of Contents

In addition, each VRDP Fee Agreement is expected to include a covenant substantially as follows, as in the corresponding existing agreement with each Acquired Fund:

Unless the Fund receives the prior written consent of the Liquidity Provider, the Fund will maintain the Fund's Effective Leverage Ratio at or below 45%; provided, however, in the event that the Fund's Effective Leverage Ratio exceeds 45% (a) solely by reason of fluctuations in the market value of its portfolio securities, in such event and to the extent the Effective Leverage Ratio exceeds 46% and (b) in any event other than an event described in the immediately preceding clause (a), the Fund shall cause its Effective Leverage Ratio to be 45% or lower within 10 Business Days. In addition, in certain circumstances when a Failed Remarketing Condition Purchased VRDP Shares has occurred and is continuing, the Fund will limit the creation of new tender option bond trusts providing for the issuance of floating rate trust certificates so as not to cause the Effective Leverage Ratio to exceed 40% without the prior written consent of the Liquidity Provider, unless the proceeds are used to replace a like amount of outstanding floating rate trust certificates or to repurchase or redeem a like Liquidation Preference amount of VRDP Shares; provided, the Fund will not be required by the foregoing to reduce the notional amount of floating rate trust certificates then outstanding.

Effective Leverage Ratio means the quotient of:

(A) the sum of (i) the aggregate liquidation preference of the Fund's senior securities (as that term is defined in the 1940 Act) that are stock, plus accumulated but unpaid dividends thereon, excluding any such senior securities for which the Fund has issued a Notice of Redemption and either has delivered Deposit Securities to the Tender and Paying Agent or otherwise has adequate Deposit Securities on hand for the purpose of such redemption; (ii) the aggregate principal amount of the Fund's senior securities representing indebtedness (as that term is defined in the 1940 Act), plus any accrued but unpaid interest thereon; and (iii) the aggregate principal amount of floating rate trust certificates corresponding to the associated residual floating rate trust certificates owned by the Fund (less the aggregate principal amount of any such floating rate trust certificates owned by the Fund and corresponding to the associated residual floating rate trust certificates owned by the Fund).

divided by

(B) the sum of (i) the Market Value of the Fund's total assets (including amounts attributable to senior securities), less the amount of the Fund's accrued liabilities (which accrued liabilities shall include net obligations of the Fund under each Derivative Contract in an amount equal to the Derivative Termination Value thereof payable by the Fund to the related counterparty), other than liabilities for the aggregate principal amount of senior securities representing indebtedness, and (ii) the aggregate principal amount of floating rate trust certificates corresponding to the associated residual floating rate trust certificates owned by the Fund (less the aggregate principal amount of any such floating rate trust certificates owned by the Fund and corresponding to the associated residual floating rate trust certificates owned by the Fund).

Table of Contents

LIQUIDITY PROVIDER

Information regarding each Liquidity Provider's current short-term and long-term debt ratings assigned by Fitch, Moody's Investor's Service, Inc. and Standard & Poor's Ratings Service is available at www.fitchratings.com, www.moodys.com and www.standardandpoors.com, respectively. No assurances can be given that the current ratings of any Liquidity Provider's instruments will be maintained.

Additional information regarding each Liquidity Provider is available in public reports filed by the Liquidity Provider or its bank holding company parent, if applicable, with the SEC and/or applicable bank regulatory authority.

BOOK-ENTRY PROCEDURES AND SETTLEMENT

None of the Fund, the Investment Adviser, any Liquidity Provider, any Remarketing Agent or the Tender and Paying Agent takes any responsibility for the accuracy of the information in this section concerning DTC and DTC's book-entry system, makes any representation as to the completeness of such information or makes any representation as to the absence of material changes in such information subsequent to the date hereof.

The New VRDP Shares will be book-entry (global) securities. Upon issuance, all book-entry securities will be represented by one or more fully-registered global securities. Each global security will be deposited with, or on behalf of, DTC, a securities depository, and will be registered in the name of DTC or a nominee of DTC. DTC will thus be the only registered holder of New VRDP Shares.

Purchasers of New VRDP Shares may only hold interests in the global securities directly through DTC if they are participants in the DTC system. Purchasers may also hold interests through a securities intermediary—banks, brokerage houses and other institutions that maintain securities accounts for customers—that has an account with DTC or its nominee. DTC will maintain accounts showing the security holdings of its Agent Members, and these Agent Members will in turn maintain accounts showing the security holdings of their customers. Some of these customers may themselves be securities intermediaries holding securities for their customers. Thus, each Beneficial Owner of a book-entry security will hold that security indirectly through various intermediaries.

The interest of each Beneficial Owner in a book-entry security will be evidenced solely by entries on the books of the Beneficial Owner's securities intermediary or Agent Member. The actual purchaser of the securities will generally not be entitled to have the securities represented by the global securities registered in its name and will not be considered the owner under the terms of the securities and their governing documents. That means that the Fund and the Tender and Paying Agent or any other agent of the Fund will be entitled to treat the registered holder, DTC or its nominee, as the holder of the securities for all purposes. In most cases, the Beneficial Owner will also not be able to obtain a paper certificate evidencing its ownership of New VRDP Shares. The laws of some jurisdictions require some purchasers of securities to take physical delivery of their securities in definitive form. These laws may impair the ability to own, transfer or pledge beneficial interests in book-entry securities.

Table of Contents

A Beneficial Owner of book-entry securities represented by a global security may exchange the securities for definitive (paper) securities only if:

DTC is unwilling or unable to continue as depository for such global security and the Fund does not appoint a qualified replacement for DTC within 90 days; or

the Fund in its sole discretion decides to allow some or all book-entry securities to be exchangeable for definitive securities in registered form.

Unless indicated otherwise, any global security that is so exchangeable will be exchangeable in whole for definitive securities in registered form, with the same terms and of an equal aggregate amount. Definitive securities will be registered in the name or names of the person or persons specified by DTC in a written instruction to the registrar of the New VRDP Shares. DTC may base its written instruction upon directions that it receives from Agent Members.

In this Information Memorandum, in the case of book-entry securities, references to actions taken by Beneficial Owners will mean actions taken by DTC upon instructions from its Agent Members, and references to payments and notices relating to redemptions or the tendering of New VRDP Shares will mean payments and notices related to the redemption or tender of New VRDP Shares to DTC as the registered holder of the securities for distribution to Agent Members in accordance with DTC's procedures. If fewer than all the New VRDP Shares are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Agent Member in the New VRDP Shares to be redeemed.

Each sale of a book-entry security will settle in immediately available funds through DTC unless otherwise stated. Neither the Fund nor the Tender and Paying Agent, or any agent of either, will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in any book-entry securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Neither DTC nor DTC's nominee will consent or vote with respect to the New VRDP Shares unless authorized by a participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy (the Omnibus Proxy) to the Fund as soon as possible after the record date. The Omnibus Proxy assigns DTC's nominee consenting or voting rights to the Agent Members to whose accounts the New VRDP Shares are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Dividend payments on the New VRDP Shares and payments upon redemption of New VRDP Shares will be made to DTC's nominee or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit participants' accounts upon DTC's receipt of funds and corresponding detail information from the Fund or the Tender and Paying Agent on the payment date in accordance with their respective holdings shown on DTC records. Payments by Agent Members to Beneficial Owners will be governed by standing instructions and customary practices. Payment of dividends or redemption proceeds to DTC's nominee is the responsibility of the Fund or the Tender and Paying Agent, disbursement of such payments to participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Agent Members or securities intermediaries who hold through an Agent Member.

Table of Contents

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE FUND BELIEVES TO BE RELIABLE. THE FUND, THE INVESTMENT ADVISER, THE LIQUIDITY PROVIDER, THE REMARKETING AGENT OR THE TENDER AND PAYING AGENT TAKE NO RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM. NO REPRESENTATION IS MADE BY THE FUND, THE INVESTMENT ADVISER, THE LIQUIDITY PROVIDER, THE REMARKETING AGENT OR THE TENDER AND PAYING AGENT AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. NO ATTEMPT HAS BEEN MADE BY THE FUND, THE INVESTMENT ADVISER, THE LIQUIDITY PROVIDER, THE REMARKETING AGENT AND THE TENDER AND PAYING AGENT TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. THE FUND AND THE LIQUIDITY PROVIDER WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DTC AGENT MEMBER, SECURITIES INTERMEDIARIES, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DIVIDEND PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC AGENT MEMBERS, THE SECURITIES INTERMEDIARIES OR THE BENEFICIAL OWNERS.

IT IS THE DUTY OF EACH BENEFICIAL OWNER TO ARRANGE WITH THE DTC AGENT MEMBER OR SECURITIES INTERMEDIARIES TO RECEIVE FROM SUCH DTC AGENT MEMBER OR SECURITIES INTERMEDIARY DIVIDEND PAYMENTS AND ALL OTHER COMMUNICATIONS WHICH THE DTC AGENT MEMBER OR SECURITIES INTERMEDIARY RECEIVES FROM DTC.

THE FUND'S INVESTMENTS

Investment Objectives and Policies.

The Fund's investment objectives are:

to provide current income exempt from regular federal income tax, the federal alternative minimum tax applicable to individuals and California income tax; and

to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Investment Adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

The 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 the holders of a majority of the outstanding preferred shares voting as a separate class. For purposes of the Fund's objectives, policies and investment strategies, municipal bonds and municipal obligations are treated as municipal securities. Underrated municipal securities are those municipal securities whose ratings do not, in the Investment Adviser's or Sub-Adviser's opinion, reflect their true value. Municipal securities may be underrated because of the time that has elapsed since their last rating was assigned or reviewed, or because rating agencies have not fully taken into account positive factors, or for other reasons. Undervalued municipal securities are those securities that, in the Investment Adviser's or Sub-Adviser's opinion, are worth more than their

Table of Contents

market value. Municipal securities may be undervalued because there is a temporary excess of supply in that particular sector (such as hospital bonds, or bonds of a particular issuer). The Investment Adviser or Sub-Adviser may buy such a security even if the value of that security is consistent with the value of other securities in that sector. Municipal securities also may be undervalued because there has been a general decline in the market price of municipal securities for reasons that do not apply to the particular municipal securities that the Investment Adviser or Sub-Adviser considers undervalued. The Fund's investment in underrated or undervalued municipal securities will be based on the Investment Adviser's or Sub-Adviser's belief that the prices of such municipal securities should ultimately reflect their true value.

The Fund attempts to increase its portfolio value relative to the municipal bond market by prudent selection of municipal bonds regardless of the direction the market may move. There can be no assurance that the Fund's attempt to increase its portfolio value relative to the municipal bond market will succeed. To the extent that it does succeed, however, such success would increase the amount of net capital gains or reduce the amount of net capital losses that the Fund would otherwise have realized. While this incremental increase in net realized gains due to successful value investing, if any, is expected to be modest over time, it would tend to result in the distribution, over time, of a modestly greater amount of taxable capital gains to common shareholders and preferred shareholders. The Fund is currently required to allocate net capital gains and other income taxable for federal and California personal income tax purposes, if any, proportionately between Common Shares and Preferred Shares, including VRDP Shares, and dividends paid on VRDP Shares during specified Rate Periods will include an allocated portion of any such net capital gains and other taxable income. See Certain Income Tax Considerations .

It is a fundamental policy that, under normal circumstances, the Fund will invest at least 80% of its Managed Assets in municipal securities and other related investments the income from which is exempt from federal and California income taxes and are covered by insurance guaranteeing the timely payment of principal and interest thereon. Inverse floaters, whose underlying bonds are covered by insurance guaranteeing the timely payment of principal and interest thereon, are included in the above-referenced 80% test. As a non-fundamental policy, the Fund invests at least 80% of its Managed Assets in municipal securities and other related investments the income from which is exempt from the federal alternative minimum tax applicable to individuals.

Under normal circumstances, the municipal securities in which the Fund invests will be, at the time of purchase, (i) rated BBB/Baa or better by an NRSRO or covered by insurance from insurers with a claims-paying ability rated BBB/Baa or better by an NRSRO; (ii) unrated, but judged to be of comparable quality by the Investment Adviser; or (iii) backed by an escrow or trust account containing sufficient U.S. Government or U.S. Government agency securities to ensure timely payment of principal and interest.

The foregoing credit quality policy applies only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a rating agency subsequently downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, the Investment Adviser or Sub-Adviser may consider such factors as its assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other rating agencies.

Table of Contents

This Information Memorandum summarizes the current investment objectives and policies of the Fund. Certain of these policies are subject to change if approved at the Fund's annual meeting of shareholders on February 24, 2011.

The Fund may enter into derivative instruments to achieve its investment objectives, enhance return, hedge certain risks of its investments in fixed income securities or as a substitute for a position in the underlying asset. Such instruments include financial futures contracts, swap contracts (including credit default swaps and interest rate swaps), options on financial futures, options on swap contracts, or other derivative instruments. The 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 future contracts or related options.

The Fund may invest up to 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 net asset value if the underlying municipal bond increases in value, but will also experience a correspondingly larger decline in its common net asset value if the underlying bond declines in value. The Fund may borrow for temporary or emergency purposes, including to pay dividends, repurchase its shares, or clear portfolio transactions. The Fund may also invest in securities of other open- or closed-end investment companies that invest primarily in municipal bonds of the types in which the Fund may invest directly.

The Fund is a non-diversified fund. As a fundamental investment policy designed to limit investment risk and maintain portfolio diversification, each of the Fund may not invest more than 5% of its total assets in securities of any one issuer (other than obligations of the U.S. Government and its agencies), if as a result more than 5% of its total assets would then be invested in securities of any one issuer, provided that, with respect to 50% of the Fund's assets, the Fund may invest up to 25% of its assets in the securities of any one issuer.

During temporary defensive periods and in order to keep the Fund's cash fully invested, the Fund may invest up to 100% of its net assets in short-term investments including high quality, short-term securities that may be either tax exempt or taxable. It is the intent of the 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.

Portfolio Investments

As used in this Information Memorandum, the term "municipal securities" includes municipal securities with relatively short-term maturities. Some of these short-term securities may be variable or floating rate securities. The Fund, however, emphasizes investments in municipal securities with long- or intermediate-term maturities. The Fund buys municipal securities with different maturities and intends to maintain an average portfolio maturity of 15 to 30 years, although this may be shortened depending on market conditions. If the long-term municipal security market is unstable, the Fund may temporarily invest up to 100% of its assets in temporary investments. Temporary investments are high-quality, generally uninsured, short-term municipal securities that may either be tax-exempt or

Table of Contents

taxable. The Fund will buy taxable temporary investments only if suitable tax-exempt temporary investments are not available at reasonable prices and yields. The Fund will invest only in taxable temporary securities that are U.S. Government securities or corporate debt securities rated within the highest grade by Moody's, S&P or Fitch, and that mature within one year from the date of purchase or carry a variable or floating rate of interest. The Fund's policies on securities ratings only apply when the Fund buys a security, and the Fund is not required to sell securities that have been downgraded. The Fund also may invest in taxable temporary investments that are certificates of deposit from U.S. banks with assets of at least \$1 billion, or repurchase agreements. The Fund seeks to allocate taxable income on temporary investments, if any, proportionately between common shares and preferred shares, [including VRDP Shares,] based on the percentage of total dividends distributed to each class for that year.

Municipal Securities

General. The Fund may invest in various municipal securities, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal bonds, notes and securities that provide for the payment of interest income that is exempt from regular federal and California personal income taxes and the federal alternative minimum tax applicable to individuals. Municipal securities are generally debt obligations issued by state and local governmental entities and may be issued by U.S. territories to finance or refinance public projects such as roads, schools, and water supply systems. Municipal securities may also be issued 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 on long term debt. Municipal securities may be issued and purchased 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 may increase the effective leverage of the Fund.

The municipal securities in which the Fund will invest are generally issued by the State of California, a municipality in California, or a political subdivision or agency or instrumentality of such State or municipality, and pay interest that, in the opinion of bond counsel to the issuer (or on the basis of other authority believed by the Investment Adviser to be reliable), is exempt from regular federal income tax, the alternative minimum tax applicable to individuals and California personal income tax. The Fund may invest in municipal bonds issued by United States territories (such as Puerto Rico or Guam) that are exempt from regular federal and California income taxes and the federal alternative minimum tax applicable to individuals.

Yields on municipal securities depend on many factors, including the condition of the general money market and the municipal security market, the size of a particular offering, and the maturity and rating of a particular municipal security. Moody's, S&P's and Fitch's ratings represent their opinions

Table of Contents

of the quality of a particular municipal security, but these ratings are general and are not absolute quality standards. Therefore, municipal securities with the same maturity, coupon, and rating may have different yields, while municipal securities with the same maturity and coupon and different ratings may have the same yield. The market value of municipal securities will vary with changes in interest rates and in the ability of their issuers to make interest and principal payments.

Obligations of municipal security issuers are subject to bankruptcy, insolvency and other laws affecting the rights and remedies of creditors. These obligations also may be subject to future federal or state laws or referenda that extend the time to payment of interest and/or principal, or that constrain the enforcement of these obligations or the power of municipalities to levy taxes. Legislation or other conditions may materially affect the power of a municipal security issuer to pay interest and/or principal when due.

Municipal Leases and Certificates of Participation. The Fund also may purchase municipal securities that represent lease obligations and certificates of participation in such leases. These carry special risks because the issuer of the securities may not be obligated to appropriate money annually to make payments under the lease. A municipal lease is an obligation in the form of a lease or installment purchase 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, the Fund's original investment. To the extent that the Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. In order to reduce this risk, the Fund will only purchase municipal securities representing lease obligations where the Investment 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 typically are issued by a municipal agency, a trust or other entity that has received an assignment of the payments to be made by the state or political subdivision under such leases or installment purchase agreements. Such certificates provide the Fund with the right to a pro rata undivided interest in the underlying municipal securities. In addition, such participations generally provide the Fund with the right to demand payment, on not more than seven days' notice, of all or any part of the Fund's participation interest in the underlying municipal securities, plus accrued interest.

Municipal Notes. Municipal securities in the form of notes generally are used to provide for short-term capital needs, in anticipation of an issuer's receipt of other revenues or financing, and typically have maturities of up to three years. Such instruments may include tax anticipation notes,

Table of Contents

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

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

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

Inverse Floating Rate Securities. 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

Table of Contents

special purpose trust. Typically, a third party, such as a bank, broker-dealer or other financial institution, grants the floating rate security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees.

The holder of the short-term floater effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, the institution granting the tender option will not be obligated to accept tendered short-term floaters in the event of certain defaults or a significant downgrade in the credit rating assigned to the bond issuer. For its inverse floating rate investment, the Fund receives the residual cash flow from the special purpose trust. Because the holder of the short term floater is generally assured liquidity at the face value of the security, the Fund as the holder of the inverse floater assumes the interest rate cash flow risk and the market value risk associated with the municipal bond 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 inverse floaters that are issued by the special purpose trust, and can exceed three times for more highly leveraged trusts. All voting rights and decisions to be made with respect to any other rights relating to the municipal bonds held in the special purpose trust are passed through to the Fund, as the holder of the residual inverse floating rate securities.

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

The Fund may invest in inverse floating rate securities issued by special purpose trusts whose sponsors have recourse to the Fund pursuant to a separate shortfall and forbearance agreement. Such an agreement would require the Fund to reimburse the third-party sponsor of the trust, upon termination of the trust issuing the inverse floater, for the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate securities issued by the trust. The Fund will enter into such a recourse agreement (i) when the liquidity provider with respect to the floating rate securities issued by the special purpose trust requires such a recourse agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event that the municipal obligation held in the trust has declined in value. In an instance where the Fund has entered such a recourse agreement, the Fund may suffer a loss that exceeds the amount of its original investment in the inverse floating rate securities; such loss could be as great as that original investment amount plus the face amount of the floating rate securities issued by the trust.

Table of Contents

The Fund will segregate or earmark liquid assets with its custodian in accordance with the 1940 Act to cover its obligations with respect to its investments in special purpose trusts.

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

Floating Rate Securities. The Fund 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, the Fund as the holder of the floating rate securities 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 bond deposited in the trust and the application of the proceeds to pay off the floating rate securities. 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 securities.

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.

Special Considerations Relating to California Municipal Securities

As described above, under normal circumstances, the Fund will invest at least 80% of its Managed Assets in municipal securities and other related investments that pay interest exempt from California income taxes. The Fund is therefore susceptible to political, economic or regulatory factors affecting issuers of California municipal bonds. Information regarding the financial condition of the State of California is ordinarily included in various public documents issued thereby, such as the official statements prepared in connection with the issuance of general obligation bonds of the State of California. Such official statements may be obtained by contacting the State Treasurer's Office at 800-900-3873 or at www.treasurer.ca.gov. Information on the website is not incorporated herein by reference.

The State of California is a party to numerous legal proceedings, many of which normally occur in governmental operations. Information regarding some of the more significant litigation pending

Table of Contents

against the State would ordinarily be included in various public documents issued thereby, such as the official statements referred to above prepared in connection with the issuance of general obligation bonds of California.

The complete text of the most recently available Budget Act may be found at the website of the Department of Finance (www.dof.ca.gov), under the heading California Budget. Information on the website is not incorporated herein by reference.

The Legislative Analyst's Office (the LAO) has released several reports which include their estimates and assessments of State budget acts and associated fiscal and economic projections. Publications from the LAO can be read in full by accessing the LAO's website (www.lao.ca.gov) or by contacting the LAO at (916) 445-4656. Information on the website is not incorporated herein by reference.

It should be noted that the creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State of California, and that there is no obligation on the part of the State of California to make payment on such local obligations in the event of default.

Municipal Bond Insurance

Each insured municipal bond that the Fund holds will either be (1) covered by an insurance policy applicable to a specific security and obtained by the issuer of the security or a third party at the time of original issuance (Original Issue Insurance), (2) covered by an insurance policy applicable to a specific security and obtained by the Fund, and/or a third party subsequent to the time of original issuance (Secondary Market Insurance), or (3) covered by a master municipal insurance policy purchased by the Fund (Portfolio Insurance). There is no limit on the percentage of the Fund's assets that may be invested in municipal bonds insured by any one insurer.

Municipal bonds covered by Original Issue Insurance or Secondary Market Insurance, as the case may be, are themselves typically assigned a rating by virtue of the rating of the claims-paying ability of the insurer and would generally be assigned a lower rating if the ratings were based primarily upon the credit characteristics of the issuer without regard to the insurance feature. By way of contrast, the ratings, if any, assigned to municipal bonds insured under Portfolio Insurance will be based primarily upon the credit characteristics of the issuer, without regard to the insurance feature, and generally will carry a rating that is below the claims-paying ability of the insurer. While in the portfolio of the Fund, however, a municipal bond backed by Portfolio Insurance will effectively be of the same credit quality as a municipal bond issued by an issuer of comparable credit characteristics that is backed by Original Issue Insurance or Secondary Market Insurance.

The Fund will not be required to dispose of the securities in the event an NRSRO downgrades its assessment of the claims-paying ability of a particular insurer or the credit characteristics of a particular issuer. In this connection, it should be noted that in the event an NRSRO should downgrade its assessment of the claims-paying ability of a particular insurer, it or they could also be expected to downgrade the ratings assigned to municipal bonds insured by such insurer, and municipal bonds insured under Portfolio Insurance issued by such insurer also would be of reduced quality in the portfolio of the Fund. NRSROs continually assess the claims-paying ability of insurers and the credit characteristics of issuers, and there can be no assurance that they will not downgrade their assessments subsequent to the time the Fund purchases securities.

Table of Contents

The value of municipal bonds covered by Portfolio Insurance that are in default or in significant risk of default will be determined by separately establishing a value for the municipal bond and a value for the Portfolio Insurance.

Original Issue Insurance. Original Issue Insurance is purchased with respect to a particular issue of municipal bonds by the issuer thereof or a third party in conjunction with the original issuance of such municipal bonds. Under this insurance, the insurer unconditionally guarantees to the holder of the municipal bond the timely payment of principal and interest on such obligations when and as these payments become due but not paid by the issuer, except that in the event of the acceleration of the due date of the principal by reason of mandatory or optional redemption (other than acceleration by reason of a mandatory sinking fund payment), default or otherwise, the payments guaranteed may be made in the amounts and at the times as payment of principal would have been due had there not been any acceleration. The insurer is responsible for these payments less any amounts received by the holder from any trustee for the municipal bond issuer or from any other source. Original Issue Insurance does not guarantee payment on an accelerated basis, the payment of any redemption premium (except with respect to certain premium payments in the case of certain small issue industrial development and pollution control municipal bonds), the value of the Fund's shares, the market value of municipal bonds, or payments of any tender purchase price upon the tender of the municipal bonds. Original Issue Insurance also does not insure against nonpayment of principal or interest on municipal bonds resulting from the insolvency, negligence or any other act or omission of the trustee or other paying agent for these bonds.

Original Issue Insurance remains in effect as long as the municipal bonds it covers remain outstanding and the insurer remains in business, regardless of whether the Fund ultimately disposes of these municipal bonds. Consequently, Original Issue Insurance may be considered to represent an element of market value with respect to the municipal bonds so insured, but the exact effect, if any, of this insurance on the market value cannot be estimated.

Secondary Market Insurance. Subsequent to the time of original issuance of a municipal bond, the Fund or a third party may, upon the payment of a single premium, purchase insurance on that security. Secondary Market Insurance generally provides the same type of coverage as Original Issue Insurance and, as with Original Issue Insurance, Secondary Market Insurance remains in effect as long as the municipal bonds it covers remain outstanding and the insurer remains in business, regardless of whether the Fund ultimately disposes of these municipal bonds.

One of the purposes of acquiring Secondary Market Insurance with respect to a particular municipal bond would be to enable the Fund to enhance the value of the security. The Fund, for example, might seek to purchase a particular municipal bond and obtain Secondary Market Insurance, for it if, in the Investment Adviser's opinion, the market value of the security, as insured, less the cost of the Secondary Market Insurance would exceed the current value of the security without insurance. Similarly, if the Fund owns but wishes to sell a municipal bond that is then covered by Portfolio Insurance, the Fund might seek to obtain Secondary Market Insurance for it if, in the Investment Adviser's opinion, the net proceeds of the Fund's sale of the security, as insured, less the cost of the Secondary Market Insurance would exceed the current value of the security. In determining whether to insure municipal bonds the Fund owns, an insurer will apply its own standards, which correspond generally to the standards it has established for determining the insurability of new issues of municipal bonds. See Original Issue Insurance above.

Table of Contents

Portfolio Insurance. Portfolio Insurance guarantees the payment of principal and interest on specified eligible municipal bonds purchased by the Fund and presently held by the Fund. Except as described below, Portfolio Insurance generally provides the same type of coverage as is provided by Original Issue Insurance or Secondary Market Insurance. Municipal bonds insured under a Portfolio Insurance policy would generally not be insured under any other policy. A municipal bond is eligible for coverage under a policy if it meets certain requirements of the insurer. Portfolio Insurance is intended to reduce financial risk, but the cost thereof and compliance with investment restrictions imposed under the policy will reduce the yield to shareholders of the Fund.

If a municipal bond is already covered by Original Issue Insurance or Secondary Market Insurance, then the security is not required to be additionally insured under any Portfolio Insurance that the Fund may purchase. All premiums respecting municipal bonds covered by Original Issue Insurance or Secondary Market Insurance are paid in advance by the issuer or other party obtaining the insurance.

Portfolio Insurance policies are effective only as to municipal bonds owned by and held by the Fund, and do not cover municipal bonds for which the contract for purchase fails. A when-issued municipal obligation will be covered under a Portfolio Insurance policy upon the settlement date of the issue of such when-issued municipal bond.

In determining whether to insure municipal bonds held by the Fund, an insurer will apply its own standards, which correspond generally to the standards it has established for determining the insurability of new issues of municipal bonds. See Original Issue Insurance above.

Each Portfolio Insurance policy will be noncancellable and will remain in effect so long as the Fund is in existence, the municipal bonds covered by the policy continue to be held by the Fund, and the Fund pays the premiums for the policy. Each insurer will generally reserve the right at any time upon 90 days written notice to the Fund to refuse to insure any additional bonds purchased by the Fund after the effective date of such notice. The Fund's Board of Trustees generally will reserve the right to terminate each policy upon written notice to an insurer if it determines that the cost of such policy is not reasonable in relation to the value of the insurance to the Fund.

Each Portfolio Insurance policy will terminate as to any municipal bond that has been redeemed from or sold by the Fund on the date of redemption or the settlement date of sale, and an insurer will not have any liability thereafter under a policy for any municipal bond, except that if the redemption date or settlement date occurs after a record date and before the related payment date for any municipal bond, the policy will terminate for that municipal bond on the business day immediately following the payment date. Each policy will terminate as to all municipal bonds covered thereby on the date on which the last of the covered municipal bonds mature, are redeemed or are sold by the Fund.

One or more Portfolio Insurance policies may provide the Fund, pursuant to an irrevocable commitment of the insurer, with the option to exercise the right to obtain permanent insurance (Permanent Insurance) for a municipal bond that is sold by the Fund. The Fund would exercise the right to obtain Permanent Insurance upon payment of a single, predetermined insurance premium payable from the sale proceeds of the municipal bond. The Fund expects to exercise the right to obtain Permanent Insurance for a municipal bond only if, in the Investment Adviser's opinion, upon the exercise the net proceeds from the sale of the municipal bond, as insured, would exceed the proceeds from the sale of the security without insurance.

Table of Contents

The Permanent Insurance premium for each municipal bond is determined based upon the insurability of each security as of the date of purchase and will not be increased or decreased for any change in the security's creditworthiness unless the security is in default as to payment of principal or interest, or both. If such event occurs, the Permanent Insurance premium will be subject to an increase predetermined at the date of the Fund's purchase.

The Fund generally intends to retain any insured bonds covered by Portfolio Insurance that are in default or in significant risk of default and to place a value on the insurance, which ordinarily will be the difference between the market value of the defaulted bond and the market value of similar bonds that are not in default and that are rated the lesser of Baa or BBB or the rating of the insurer. In certain circumstances, however, the Investment Adviser may determine that an alternative value for the insurance, such as the difference between the market value of the defaulted bond and either its par value or the market value of similar bonds that are not in default or in significant risk of default, is more appropriate. Except as described above for bonds covered by Portfolio Insurance that are in default or subject to significant risk of default, the Fund will not place any value on the Portfolio Insurance in valuing the municipal bonds it holds.

Because each Portfolio Insurance policy will terminate for municipal bonds sold by the Fund on the date of sale, in which event the insurer will be liable only for those payments of principal and interest that are then due and owing (unless Permanent Insurance is obtained by the Fund), the provision for this insurance will not enhance the marketability of the Fund's bonds, whether or not the bonds are in default or in significant risk of default. On the other hand, because Original Issue Insurance and Secondary Market Insurance generally will remain in effect as long as the municipal bonds they cover are outstanding, these insurance policies may enhance the marketability of these bonds even when they are in default or in significant risk of default, but the exact effect, if any, on marketability, cannot be estimated. Accordingly, the Fund may determine to retain or, alternatively, to sell municipal bonds covered by Original Issue Insurance or Secondary Market Insurance that are in default or in significant risk of default.

Premiums for a Portfolio Insurance policy are paid monthly, and are adjusted for purchases and sales of municipal bonds covered by the policy during the month. The yield on the Fund is reduced to the extent of the insurance premiums it pays.

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 Fund 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 Fund is 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 the Fund to pay interest on or principal of the municipal bonds. This information has not been independently verified.

Short-Term Investments

Short-Term Taxable Fixed Income Securities. For temporary defensive purposes or to keep cash on hand fully invested, the Fund may invest up to 100% of its net assets in cash equivalents and short-term taxable fixed-income securities, although the Fund intends to invest in taxable short-term

Table of Contents

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 the dividends paid being subject to regular federal income tax, the federal alternative minimum tax applicable to individuals and California personal income tax. 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 Fund may not be fully insured.
- (c) Repurchase agreements, which involve purchases of debt securities. At the time the 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 the 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 Fund to invest temporarily available cash. The Fund 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 Fund may invest. Repurchase agreements may be considered loans to the seller, collateralized by the underlying securities. The risk to the Fund 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 Fund is entitled to sell the underlying collateral. If the value of the collateral declines after the agreement is entered into, and if the seller defaults under a repurchase agreement when the value of the underlying collateral is less than the repurchase price, the Fund could incur a loss of both principal and interest. The Investment 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 Fund s

Table of Contents

Investment 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 Fund. If the seller were to be subject to a federal bankruptcy proceeding, the ability of the Fund 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 Fund and a corporation. There is no secondary market for such notes. However, they are redeemable by the Fund at any time. The Investment Adviser will consider the financial condition of the corporation (e.g., earning power, cash flow, and other liquidity ratios) and will continuously monitor the corporation's ability to meet all of its financial obligations, because the 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 Fixed Income Securities. Short-term tax-exempt fixed-income 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 fixed 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.

Table of Contents

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 Fund may invest in such other types of notes to the extent permitted under its investment objectives, policies and limitations. Such notes may be issued for different purposes and may be secured differently from those mentioned above.

When-Issued and Delayed Delivery Transactions

The Fund may buy and sell municipal bonds 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. 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. 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 the Fund enters into a commitment to purchase securities on a when-issued or delayed delivery basis, the Fund is required under rules of the Securities and Exchange Commission 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 the Fund and, to the extent distributed, will be taxable distributions to shareholders. The Fund may enter into contracts to purchase municipal bonds 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 sixty 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.

Derivatives and Hedging Strategies

The Fund 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. 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

Table of Contents

long-term municipal securities or on taxable debt securities whose prices, in the opinion of the Investment Adviser, correlate with the prices of the Fund's investments. These hedging strategies may generate taxable income.

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. The Investment Adviser uses derivatives to shorten or lengthen the effective duration of its portfolio securities, and therefore the interest rate risk, of the Fund's portfolio, and to adjust other aspects of the portfolio's risk/return profile. The Fund may use these instruments if the Fund deems it more efficient from a transaction cost, total return or income standpoint than investing in cash securities.

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

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 Fund may be greater than gains in the value of the securities in the Fund's portfolio. In addition, futures and options markets may not be liquid in all circumstances. As a result, in volatile markets, the Fund may not be able to close out the transaction without incurring losses substantially greater than the initial deposit. Losses due to hedging transactions will reduce the

Table of Contents

Fund's net asset value which in turn could reduce yield. Net gains, if any, from hedging and other portfolio transactions will be distributed as taxable distributions to VRDP shareholders. The Fund will not make any investment (whether an initial premium or deposit or a subsequent deposit) other than as necessary to close a prior investment if, immediately after such investment, the sum of the amount of its premiums and deposits would exceed 15% of the Fund's Managed Assets. The Fund will invest in these instruments only in markets believed by The Investment Adviser to be active and sufficiently liquid. Successful implementation of most hedging strategies would generate taxable income.

Both parties entering into an index or financial futures contract are required to post an initial deposit, typically equal to from 1% to 5% of the total contract price. Typically, option holders enter into offsetting closing transactions to enable settlement in cash rather than take delivery of the position in the future of the underlying security. Interest rate swap and credit default swap transactions are typically entered on a net basis, meaning that the two payment streams are netted out with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund will only sell covered futures contracts, which means that the Fund segregates assets equal to the amount of the obligations.

Interest Rate and Total Return Swaps. The Fund may invest in interest rate swaps, total return swaps and other debt-related derivative instruments. The Fund will enter into swap agreements only with counterparties that meet certain standards of creditworthiness. In an interest rate swap, the Fund and another party exchange their respective commitments to pay each other floating for fixed rates of interest at a floating rate referenced to local short-term interest rates and a fixed rate referenced to the interest rate in the international (non-U.S.) local government securities market denominated in that non-U.S. market currency. In a total return swap, the Fund exchanges with another party their respective commitments to pay or receive the total return of an underlying asset and a floating local short-term interest rate.

The Fund usually will enter into interest rate swaps and total return swaps on a net basis (i.e., the two payment streams are netted out with the Fund receiving or paying, as the case may be, only the net amount of the two payments). The net amount of the excess, if any, of the Fund's obligations over its entitlements with respect to each interest rate swap will be accrued on a daily basis, and an amount of cash or liquid securities having an aggregate net asset value at least equal to the accrued excess will be segregated by the Fund. If the interest rate swap transaction is entered into on other than a net basis, the full amount of the Fund's obligations will be accrued on a daily basis, and the full amount of the Fund's obligations will be segregated by the Fund.

The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions, including the risk that the counterparty may be unable to fulfill the transaction. If there is a default by the other party to such a transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction. If the Investment Adviser is incorrect in its forecasts of market values, interest rates and other applicable factors, the investment performance of the Fund would be unfavorably affected.

Credit Default Swaps. A credit default swap is an agreement between two counterparties, in which one party makes a periodic payment to the other party in exchange for a potential payoff if a third party (the reference credit) defaults in the payment of its debt obligations. The Fund may enter into a credit default swap as the first party (or buyer) seeking to receive credit protection to hedge a specific portfolio holding. In this example, a counterparty is the provider (or seller) of credit

Table of Contents

protection. Generally, credit default swaps may reference a specific entity or a pool of entities. The settlement of a credit default swap, upon the occurrence of a trigger event, may be accomplished by means of physical delivery of the securities of the reference entity, or a cash payment. Entering into credit default swap agreements involves counterparty risks.

Bond Futures and Forward Contracts. Bond futures contracts are agreements in which one party agrees to deliver to the other an amount of cash equal to a specific dollar amount times the difference between the value of a specific bond at the close of the last trading day of the contract and the price at which the agreement is made. No physical delivery of securities is made. Forward contracts are agreements to purchase or sell a specified security or currency at a specified future date (or within a specified time period) and price set at the time of the contract. Forward contracts are usually entered into with banks, foreign exchange dealers or broker-dealers and are usually for less than one year, but may be renewed. Forward contracts are generally purchased or sold in over-the-counter transactions.

Under regulations of the Commodity Futures Trading Commission (CFTC) currently in effect, which may change from time to time, with respect to futures contracts purchased by the Fund, the Fund will set aside in a segregated account liquid securities with a value at least equal to the value of instruments underlying such futures contracts less the amount of initial margin on deposit for such contracts. The current view of the staff of the Securities and Exchange Commission is that the Fund's long and short positions in futures contracts must be collateralized with cash or certain liquid assets held in a segregated account or covered in order to counter the impact of any potential leveraging.

Parties to a futures contract must make initial margin deposits to secure performance of the contract. There are also requirements to make variation margin deposits from time to time as the value of the futures contract fluctuates.

Options on Currency Futures Contracts. Currency futures contracts are standardized agreements between two parties to buy and sell a specific amount of a currency at a set price on a future date. While similar to currency forward contracts, currency futures contracts are traded on commodities exchanges and are standardized as to contract size and delivery date. An option on a currency futures contract gives the holder of the option the right to buy or sell a position in a currency futures contract, at a set price and on or before a specified expiration date. Trading options on international (non-U.S.) currency futures contracts is relatively new. The ability to establish and close out positions on such options is subject to the maintenance of a liquid secondary market.

The Fund, the Investment Adviser and Sub-Adviser have claimed, respectively, an exclusion from registration as a commodity pool operator and as a commodity trading advisor under the Commodity Exchange Act (the CEA) and, therefore, neither the Fund, the Investment Adviser, nor their officers and directors, are subject to the registration requirements of the CEA or regulation as a commodity pool operator or a commodity trading advisor under the CEA. The Fund reserves the right to engage in transactions involving futures and options thereon to the extent allowed by CFTC regulations in effect from time to time and in accordance with the Fund's policies. In addition, certain provisions of the Code may limit the extent to which the Fund may enter into futures contracts or engage in options transactions. See Certain Income Tax Considerations.

Index Futures. A tax-exempt bond index which assigns relative values to the tax-exempt bonds included in the index is traded on the Chicago Board of Trade. The index fluctuates with changes in the market values of all tax-exempt bonds included rather than a single bond. An index future is a bilateral agreement pursuant to which two parties agree to take or make delivery of an

Table of Contents

amount of cash rather than any security equal to a specified dollar amount times the difference between the index value at the close of the last trading day of the contract and the price at which the index future was originally written. Thus, an index future is similar to traditional financial futures except that settlement is made in cash.

Index Options. The Fund may also purchase put or call options on U.S. government or tax-exempt bond index futures and enter into closing transactions with respect to such options to terminate an existing position. Options on index futures are similar to options on debt instruments except that an option on an index future gives the purchaser the right, in return for the premium paid, to assume a position in an index contract rather than an underlying security at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance of the writer's futures margin account which represents the amount by which the market price of the index futures contract, at exercise, is less than the exercise price of the option on the index future.

Bond index futures and options transactions would be subject to risks similar to transactions in financial futures and options thereon as described above.

Interest Rate Transactions. In order to seek to hedge the value of the Fund's portfolio or to seek to increase the Fund's return, the Fund may enter into various interest rate transactions such as interest rate swaps and the purchase or sale of interest rate caps and floors. The Fund may enter into these transactions to seek to increase its return, to preserve a return or spread on a particular investment or portion of its portfolio, or to seek to protect against any increase in the price of securities the Fund anticipates purchasing at a later date.

Interest rate swaps involve the Fund's agreement with the swap counterparty to pay a fixed rate payment in exchange for the counterparty agreeing to pay the Fund a payment at a variable rate that is expected to approximate the rate on the Fund's variable rate payment obligations. The payment obligations would be based on the notional amount of the swap. The Fund may use an interest rate cap, which would require it to pay a premium to the cap counterparty and would entitle it, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive from the counterparty payment of the difference based on the notional amount. The Fund would use interest rate swaps or caps only with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have on Common Share net earnings as a result of leverage.

The Fund will usually enter into swaps or caps 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 Fund intends to maintain in a segregated account with its custodian cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked-to-market daily.

The use of interest rate transactions, such as interest rate swaps and caps, is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of interest rates in general, the Fund's use of interest rate swaps or caps could enhance or harm the overall performance of the Fund's Common Shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of the Common Shares. In addition, if short-term interest rates are lower than the Fund's fixed rate of payment on the interest rate swap, the swap

Table of Contents

will reduce Common Share net earnings. If, on the other hand, short-term interest rates are higher than the fixed rate of payment on the interest rate swap, the swap will enhance Common Share net earnings. Buying interest rate caps could enhance the performance of the Common Shares by providing a maximum leverage expense. Buying interest rate caps could also decrease the net earnings of the common shares in the event that the premium paid by the Fund to the counterparty exceeds the additional amount the Fund would have been required to pay had it not entered into the cap agreement.

Interest rate swaps and caps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make. If the counterparty defaults, the Fund would not be able to use the anticipated net receipts under the swap or cap to offset interest payments. Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, such a default could negatively impact the performance of the Common Shares.

Although this will not guarantee that the counterparty does not default, the Fund will not enter into an interest rate swap or cap transaction with any counterparty that the Investment Adviser believes does not have the financial resources to honor its obligation under the interest rate swap or cap transaction. Further, the Investment Adviser will continually monitor the financial stability of a counterparty to an interest rate swap or cap transaction in an effort to proactively protect the Fund's investments.

In addition, at the time the interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund would not be able to obtain a replacement transaction or that the terms of the replacement would not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the performance of the Fund's Common Shares.

Structured Notes

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

Other Investment Companies

The Fund may invest up to 10% of its Managed Assets in securities of other open- or closed-end investment companies (including exchange-traded funds (often referred to as ETFs)) that

Table of Contents

invest primarily in municipal securities of the types in which the Fund may invest directly. In addition, the Fund may invest a portion of its Managed Assets in pooled investment vehicles (other than investment companies) that invest primarily in municipal securities of the types in which the Fund may invest directly. The Fund generally expects that it may invest in other investment companies and/or other pooled investment vehicles either during periods when it has large amounts of uninvested cash or during periods when there is a shortage of attractive, high-yielding municipal securities available in the market. The Fund may invest in investment companies that are advised by the Investment Adviser or its affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC. As a shareholder in another investment company, the Fund will bear its ratable share of that investment company's expenses, and would remain subject to payment of the Fund's advisory and administrative fees with respect to assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. The Investment Adviser will take expenses into account when evaluating the investment merits of an investment in the investment company relative to available municipal bond investments. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to leverage risks. The net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares.

Segregation of Assets

As a closed-end investment company registered with the Securities and Exchange Commission, the Fund is subject to the federal securities laws, including the 1940 Act, the rules thereunder, and various interpretive positions of the Securities and Exchange Commission and its staff. In accordance with these laws, rules and positions, the Fund must set aside (often referred to as asset segregation) liquid assets, or engage in other Securities and Exchange Commission 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, the 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, the 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. The 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 Securities and Exchange Commission or its staff regarding asset segregation.

The Fund generally will use its assets to cover its obligations as required by the 1940 Act, the rules thereunder, and applicable positions of the Securities and Exchange Commission and its staff. As a result of their segregation, such assets may not be used for other operational purposes. The Fund also may be required to segregate assets in connection with a Failed Remarketing Condition Purchased VRDP Shares Redemption, as described above under The Purchase Obligation VRDP Fee Agreement. The Investment Adviser will monitor the Fund's 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 the Fund's portfolio investments.

The Fund may invest in inverse floating rates securities issued by special purpose trusts. With respect to such investments, the Fund will segregate or earmark assets in an amount equal to at least 100% of the face amount of the floating rate securities issued by such trusts.

Table of Contents**Other Investment Policies and Techniques**

Illiquid Securities. The 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 only be resold pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and repurchase agreements with maturities in excess of seven days.

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, the 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, the Fund might obtain a less favorable price than that which prevailed when it decided to sell. Illiquid securities will be priced at a fair value as determined in good faith by the Board of Trustees or its delegate.

Portfolio Trading and Turnover Rate. Portfolio trading may be undertaken to accomplish the investment objectives of the Fund in relation to actual and anticipated movements in interest rates. In addition, a security may be sold and another of comparable quality purchased at approximately the same time to take advantage of what the Investment Adviser believes to be a temporary price disparity between the two securities. Temporary price disparities between two comparable securities may result from supply and demand imbalances where, for example, a temporary oversupply of certain bonds may cause a temporarily low price for such bonds, as compared with other bonds of like quality and characteristics. The Fund may also engage to a limited extent in short-term trading consistent with its investment objectives. Securities may be sold in anticipation of a market decline (a rise in interest rates) or purchased in anticipation of a market rise (a decline in interest rates) and later sold, but the Fund will not engage in trading solely to recognize a gain.

Subject to the foregoing, the Fund will attempt to achieve its investment objectives by prudent selection of municipal securities with a view to holding them for investment. While there can be no assurance thereof, the Fund anticipates that its annual portfolio turnover rate will generally not exceed 100%. However, the rate of turnover will not be a limiting factor when the Fund deems it desirable to sell or purchase securities. Therefore, depending upon market conditions, the annual portfolio turnover rate of the Fund may exceed 100% in particular years.

Repurchase Agreements. As temporary investments, the Fund may invest in repurchase agreements. A repurchase agreement is a contractual agreement whereby the seller of securities (U.S. government securities or municipal bonds) agrees to repurchase the same security at a specified price on a future date agreed upon by the parties. The agreed upon repurchase price determines the yield during the 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 is taxable to shareholders of the Fund, including owners of VRDP Shares, and, therefore, is required to be allocated proportionately by the Fund between Common Shares and VRDP Shares. See Certain Income Tax Considerations. The Fund will enter into repurchase agreements with registered securities dealers or domestic banks that, in the opinion of the Investment Adviser, present minimal credit risk. The risk to the Fund is limited to the ability of the issuer to pay the agreed upon repurchase price on the delivery dates; however, although the value of the underlying collateral at the time the transaction is entered into always equals or exceeds the agreed

Table of Contents

upon repurchase price, if the value of the collateral declines there is a risk of loss of both principal and interest. In the event of default, the collateral may be sold but the Fund might incur a loss if the value of the collateral declines, and might incur disposition costs or experience delays in connection with liquidating the collateral. In addition, if bankruptcy proceedings are commenced with respect to the seller of the security, realization upon the collateral by the Fund may be delayed or limited. The Investment 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 Investment 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. The Fund may invest in zero coupon bonds. A zero coupon bond is a bond that does not pay interest for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, a zero coupon bond's return comes from the difference between the purchase price and its maturity value. A zero coupon bond is normally issued and traded at a deep discount from face value. Zero coupon bonds allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The market prices of zero coupon bonds are affected to a greater extent by changes in prevailing levels of interest rates and thereby tend to be more volatile in price than securities that pay interest periodically. In addition, because the Fund accrues income with respect to these securities prior to the receipt of such interest, it may have to dispose of portfolio securities under disadvantageous circumstances in order to obtain cash needed to pay income dividends in amounts necessary to avoid unfavorable tax consequences.

Investment Restrictions

Except as described below, the Fund, as a fundamental policy, may not, without the approval of the holders of a majority of the outstanding Common Shares and VRDP Shares, voting together as a single class, and of the holders of a majority of the Outstanding VRDP Shares voting as a separate class, and the prior written consent of the Liquidity Provider, such consent to be determined in the Liquidity Provider's good faith discretion:

- (1) 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 this Information Memorandum;
- (2) Borrow money, except from banks for temporary or emergency purposes or for repurchase of its shares, and then only in an amount not exceeding one-third of the value of the Fund's total assets (including the amount borrowed) less the Fund's liabilities (other than borrowings);
- (3) 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 in connection with the purchase and sale of portfolio securities;
- (4) 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 bonds other than those municipal bonds backed only by the assets and revenues of non-governmental users;

Table of Contents

- (5) Purchase or sell real estate, but this shall not prevent the Fund from investing in municipal bonds secured by real estate or interests therein or foreclosing upon and selling such security;
- (6) Purchase or sell physical commodities unless acquired as a result of ownership of securities or other instruments (but this shall not prevent the Fund from purchasing or selling options, futures contracts, derivative instruments or from investing in securities or other instruments backed by physical commodities);
- (7) Make loans, other than by entering into repurchase agreements and through the purchase of municipal bonds or short-term investments in accordance with its investment objectives, policies and limitations; and
- (8) 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; provided that, with respect to 50% of the Fund's assets, the Fund may invest up to 25% of its assets in the securities of any one issuer.

For purposes of the foregoing, a majority of the outstanding, when used with respect to particular shares of the Fund, means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (ii) more than 50% of the shares, whichever is less.

For the purpose of applying the limitation set forth in subparagraph (8) above, an issuer shall be deemed the sole issuer of a security when its assets and revenues are separate from other governmental 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 bond 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 bond 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.

Under the 1940 Act, the Fund may invest only up to 10% of its total assets in the aggregate in shares of other investment companies and only 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. The Fund will bear its ratable share of that investment company's expenses, and will remain subject to payment of the Fund's management, advisory and administrative fees with respect to assets so invested. Holders of Common Shares would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to leverage risks.

Table of Contents

In addition to the foregoing fundamental investment policies, the Fund is also subject to the following non-fundamental restrictions and policies, which may be changed by the Board of Trustees. The 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) Invest more than 10% of its Managed Assets in securities of other open- or closed- end investment companies (including ETFs) that invest primarily in municipal securities of the types in which the Fund may invest directly.
- (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 that the Fund may invest up to 5% of its net assets in tax-exempt or taxable fixed-income securities or equity securities for the purpose of acquiring control of an issuer whose municipal bonds (a) the Fund already owns and (b) have deteriorated or are expected shortly to deteriorate significantly in credit quality, provided the Investment Adviser determines that such investment should enable the Fund to better maximize the value of its existing investment in such issuer.

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.

At least six months prior to the scheduled redemption for a VRDP Series, the Fund will maintain segregated assets rated at least investment grade (and including Deposit Securities in an amount equal to 20% of segregated assets, with 135 days remaining to the redemption date, increasing to 100% with 15 days remaining) with a Market Value equal to at least 110% of the Liquidation Preference of that VRDP Series until the redemption of all such Outstanding VRDP Shares for that VRDP Series.

Table of Contents

MANAGEMENT OF THE FUND

Trustees and Officers

The management of the Fund, including general supervision of the duties performed for the Fund under the management agreement between the Investment Adviser and the Fund, is the responsibility of the Board of Trustees of the Fund. Information about the trustees and officers of the Fund is incorporated in this Information Memorandum by reference to the Fund's 2011 Annual Report and the Joint Proxy Statement relating to the Fund's annual meeting of shareholders filed with the SEC. See Available Information.

Investment Adviser

Nuveen Fund Advisors, Inc. is the Fund's investment adviser. The Investment Adviser is responsible for investing the Fund's Managed Assets. The Investment Adviser oversees the management of the Fund's portfolio, manages the Fund's business affairs and provides certain clerical, bookkeeping and other administrative services. Nuveen Fund Advisors is located at 333 West Wacker Drive, Chicago, Illinois 60606.

The Investment Adviser, a registered investment adviser, is a wholly-owned subsidiary of Nuveen Investments, Inc. Founded in 1898, Nuveen Investments and its affiliates had approximately \$198 billion of assets under management as of September 30, 2011. On November 13, 2007, Nuveen Investments was acquired by investors led by Madison Dearborn Partners, LLC (the MDP Acquisition).

The Investment Adviser has selected its affiliate, Nuveen Asset Management, LLC, located at 333 West Wacker Drive, Chicago, IL 60606, to serve as a sub-adviser to the Fund. The Sub-Adviser manages the investment of the Fund's assets on a discretionary basis, subject to the supervision of the Investment Adviser. The Sub-Adviser is a wholly-owned subsidiary of the Investment Adviser and was appointed as a sub-adviser in January 2011 as part of an internal restructuring of the Investment Adviser.

The Fund is dependent upon services and resources provided by its investment adviser, and therefore the investment 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 Fund under the investment management agreement.

Pursuant to an Investment Management Agreement, the Fund pays the Investment Adviser an annual management fee, payable monthly, in a maximum amount equal to .65% of the Fund's average daily net assets, including Managed Assets. This maximum fee is equal to the sum of a fund-level fee and a complex-level fee. The fund-level fee is a maximum of .45% of the Fund's average total

Table of Contents

daily Managed Assets, with lower fee levels for assets that exceed \$125 million. The complex-level fee is a maximum of .20% of the Fund's daily Managed Assets based on the daily Managed Assets for all Nuveen sponsored funds in the U.S. which constitute eligible Nuveen assets, with lower fee levels for complex-level assets that exceed \$55 billion. Eligible assets do not include assets attributable to investments in other Nuveen Funds in excess of \$2 billion added to the Nuveen fund complex in connection with the Investment Adviser's assumption of the former First American Funds. As of August 31, 2011, the complex-level fee was 0.17819%.

As of the date of this Information Memorandum, Scott R. Romans, PhD, is the portfolio manager of the Fund. Information about the portfolio manager's compensation, other accounts managed by the portfolio manager and other information is provided in the Fund's most recent Form N-CSR available at www.sec.gov or by visiting www.nuveen.com. Scott Romans has primary responsibility for the day-to-day implementation of the Fund's investment strategies.

Table of Contents**RISK FACTORS**

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that VRDP shareholders of any Series may receive little or no return on their investment or even that VRDP shareholders may lose part or all of their investment. Therefore, you should consider carefully the following risks that are assumed when investing in each Series of VRDP Shares of the Fund. Each reference below to VRDP Shares and Liquidity Provider is to the VRDP Shares of the applicable Series of VRDP Shares of the Fund and the Liquidity Provider for that Series. See also *The Fund's Investments Investment Objectives and Policies* and *Derivatives and Hedging Strategies* and *How the Fund Manages Portfolio Risk*.

Insolvency and/or Bankruptcy of the Liquidity Provider. In the event of a material credit or capital impairment of the Liquidity Provider, there is no assurance that the Liquidity Provider will be able to fulfill its obligation to purchase VRDP Shares. The Liquidity Provider's solvency and ability to fulfill its obligation to pay for VRDP Shares that are tendered for Remarketing and cannot successfully be remarketed by the Remarketing Agent or that are subject to Mandatory Purchase may deteriorate before a VRDP shareholder can successfully tender the VRDP Shares for Remarketing or purchase or before the occurrence of the Mandatory Purchase Date, as applicable. In addition, an NRSRO could downgrade the ratings of the Liquidity Provider, which could affect the liquidity of the VRDP Shares as discussed more fully below. In the event of the filing of a bankruptcy proceeding of the Liquidity Provider, the VRDP Purchase Agreement may be terminated prior to a Mandatory Purchase being effected, and the Fund may not be able to enter into a new VRDP Purchase Agreement with a replacement Liquidity Provider in a timely manner, if at all. In this instance, a VRDP shareholder may not be able to sell VRDP Shares or may experience delays in receiving payment or may not recover all or a portion of any loss sustained from having to sell the VRDP Shares without the benefit of the VRDP Purchase Agreement.

Remarketing Risk. VRDP shareholders may elect to tender their VRDP Shares to the Tender and Paying Agent for Remarketing pursuant to an Optional Tender, or a Mandatory Tender may occur as described herein. There can be no assurance that the Remarketing Agent will be able to remarket all the VRDP Shares tendered in a Remarketing. The Remarketing Agent in its sole discretion may purchase for its own account VRDP Shares in a Remarketing; however, the Remarketing Agent will not be obligated to purchase any VRDP Shares that would otherwise remain unsold in a Remarketing. If any VRDP Shares tendered in a Remarketing are not remarketed, the Tender and Paying Agent will tender such VRDP Shares for purchase, pursuant to a Final Notice of Purchase, to the Liquidity Provider. During the term of the VRDP Purchase Agreement, the Liquidity Provider has an unconditional and irrevocable obligation to purchase VRDP Shares tendered for purchase on the relevant Purchase Date pursuant to a Final Notice of Purchase.

Failure of the Liquidity Provider to Fulfill its Purchase Obligation. If VRDP Shares are not sold in a Remarketing on or before the Purchase Date, or an attempted Remarketing results in unsold VRDP Shares, or if a Mandatory Purchase Event occurs, the Liquidity Provider will be obligated to purchase the VRDP Shares pursuant to a Final Notice of Purchase. The ability of a VRDP shareholder to realize payment from the Liquidity Provider will depend on the ability of the Liquidity Provider to pay for the VRDP Shares tendered pursuant to a Final Notice of Purchase. If the Liquidity Provider should default on its Purchase Obligation under the VRDP Purchase Agreement, a VRDP shareholder might have limited or no ability to sell its VRDP Shares or to recover all or a portion of any loss sustained from otherwise selling the VRDP Shares, especially when market interest rates are rising. If

Table of Contents

the Liquidity Provider continues to fail to perform its duties and the Fund cannot find a replacement Liquidity Provider, VRDP shareholders may be required to continue to hold their VRDP Shares for an indefinite period of time.

Inability to Extend the Purchase Obligation or Engage a Successor Liquidity Provider. In the event the Fund is unable to extend the VRDP Purchase Agreement beyond the Scheduled Termination Date or engage a successor Liquidity Provider pursuant to an Alternate VRDP Purchase Agreement providing for a Purchase Obligation on the same terms and conditions as the VRDP Purchase Agreement and that can be maintained on a commercially reasonable basis, as determined in the sole discretion of the Board of Trustees, a Mandatory Purchase Event will occur and each VRDP shareholder will be required to deliver its VRDP Shares for purchase by the Liquidity Provider.

A Mandatory Tender Event or Mandatory Purchase Event May Occur At Times When Attractive Alternative Investment Opportunities Are Not Available. A Mandatory Tender Event or Mandatory Purchase Event with respect to one or more VRDP Series may occur in circumstances that are unfavorable to VRDP shareholders, at times when attractive alternative investment opportunities for reinvestment of the proceeds of a Remarketing or purchase by the Liquidity Provider are not available.

Interest Rate Risk. VRDP Shares generally pay dividends based on short-term interest rates, and the proceeds from the issuance of the Fund's Preferred Shares are used to buy municipal bonds, which pay interest based on long-term yields. Long-term municipal bond yields are typically, although not always, higher than short-term interest rates. Long-term, intermediate-term and short-term interest rates may fluctuate. If short-term interest rates rise, VRDP Share rates may rise so that the amount of dividends paid to the VRDP shareholders exceeds the income from the portfolio securities purchased with the proceeds from the sale of the VRDP Shares. Because income from the Fund's entire investment portfolio (not just the portion of the portfolio attributable to the proceeds from the issuance of Preferred Shares) is available to pay dividends on the VRDP Shares, however, dividend rates on the VRDP Shares would need to greatly exceed the Fund's net portfolio income before the Fund's ability to pay dividends on the VRDP Shares would be jeopardized. If long-term rates rise, the value of the Fund's investment portfolio will decline, reducing the amount of assets serving as the Minimum VRDP Asset Coverage for the VRDP Shares.

Additionally, in certain market environments, short-term market interest rates may be higher than the Maximum Rate allowable for the dividend reset for VRDP Shares. In such extreme circumstances, this scenario may adversely affect the valuation of VRDP Shares and the liquidity of VRDP Shares through the Remarketing process.

No Public Trading Market. The VRDP Shares will be a new issue of securities and there is currently no established trading market for such shares. The Fund does not intend to apply for a listing of the VRDP Shares on a securities exchange or an automated dealer quotation system. Accordingly, there can be no assurance as to the development or liquidity of any market for the VRDP Shares outside of Remarketings by the Remarketing Agent and the Purchase Obligation of the Liquidity Provider. Unless otherwise permitted by the Fund, a VRDP shareholder may sell, transfer or otherwise dispose of VRDP Shares only in whole shares and only pursuant to a Remarketing in accordance with the remarketing procedures set forth in the Statement (attached hereto as Appendix A); provided, however, that (a) a sale, transfer or other disposition of VRDP Shares from a VRDP shareholder who holds VRDP Shares through an Agent Member to another VRDP shareholder who holds VRDP Shares through the same Agent Member will be permitted, and (b) in the case of all transfers other than

Table of Contents

pursuant to Remarketings, the Agent Member (or other person, if permitted by the Fund) to whom such transfer is made will advise the Remarketing Agent and Tender and Paying Agent. The Fund has not registered, and does not intend to register, the VRDP Shares under the Securities Act. Accordingly, the VRDP Shares are subject to restrictions on transferability and resale and may only be purchased by and sold to qualified institutional buyers (as defined in Rule 144A under the Securities Act or any successor provision) in accordance with Rule 144A under the Securities Act or any successor provision. If at any time the Fund or the Liquidity Provider (or its bank holding company, as the case may be) is not subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), in order to preserve the exemption for resales and transfers under Rule 144A, the Fund or the Liquidity Provider, as the case may be, will furnish, or cause to be furnished, to VRDP shareholders and prospective purchasers of VRDP Shares, upon request, information with respect to the Fund or the Liquidity Provider, as the case may be, satisfying the requirements of subsection (d)(4) of Rule 144A. See Available Information.

Subordination Risk. While VRDP shareholders will have equal liquidation and distribution rights to any other Preferred Shares that might be issued by the Fund, they will be subordinated to the rights of holders of senior indebtedness, if any, of the Fund. Therefore, dividends, distributions and other payments to VRDP shareholders in liquidation or otherwise may be subject to prior payments due to the holders of senior indebtedness. The Fund currently has no senior indebtedness. The rights of lenders and counterparties in connection with any other borrowings, delayed delivery purchases and/or forward delivery contracts or derivatives, including interest rate swaps or caps, entered into by the Fund will also be senior to those of the VRDP Shares.

Ratings and Asset Coverage Risk. The Fund currently maintains certain short-term and long-term ratings of the VRDP Shares and expects to obtain one or more short-term and long-term ratings for the New VRDP Shares.

The short-term ratings on the VRDP Shares for a VRDP Series are directly related to the short-term ratings assigned to the Liquidity Provider. Changes in the credit quality of the Liquidity Provider could cause a downgrade in the short-term credit ratings of the VRDP Shares for a VRDP Series and make the VRDP Shares for that VRDP Series less liquid in the secondary market and cause losses to VRDP shareholders.

Ratings do not eliminate or necessarily mitigate the risks of investing in VRDP Shares. In addition, there can be no assurance that one or more Rating Agencies will not downgrade VRDP Shares, including as a result of altering its or their rating criteria, which may make VRDP Shares less liquid in the secondary market, although the downgrade would probably result in higher dividend rates. The short-term credit ratings address the timely payment of the Purchase Price of the VRDP Shares by the Liquidity Provider pursuant to the VRDP Purchase Agreement. Moody's ratings applicable to preferred shares address the full liquidation preference amount paid upon redemption, either due to a mandatory or voluntary redemption, including the distribution of fund assets upon liquidation. The Moody's rating also addresses the full and timely payment of dividends, subject to rate periods that could change from time to time due to special rate period designations and appropriate notices and conventions. The ratings on the VRDP Shares are not recommendations to purchase, hold, or sell those shares, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. The Rating Agency Guidelines do not address the likelihood that an owner of the VRDP Shares will be able to sell such shares in a Remarketing or otherwise.

Table of Contents

Mandatory and Optional Redemptions. The Fund may be forced to redeem VRDP Shares with respect to one or more VRDP Series to meet regulatory or Rating Agency requirements, or requirements under any VRDP Fee Agreement, or may voluntarily redeem VRDP Shares at any time, including in circumstances that are unfavorable to VRDP shareholders, at times when attractive alternative investment opportunities for reinvestment of the redemption proceeds are not available.

Tax Risks. The Fund is relying on an opinion of counsel that the VRDP Shares will qualify as stock in the Fund for U.S. federal income tax purposes. Because there is no direct legal authority on the classification of instruments similar to the VRDP Shares, investors should be aware that the Internal Revenue Service and other governmental taxing authorities could assert a contrary position. See Certain Income Tax Considerations.

Dividends. The Fund may be unable to pay dividends on VRDP Shares in extraordinary circumstances.

Inflation Risk. Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted (or real) value of an investment in VRDP Shares or the income from that investment will be worth less in the future. As inflation occurs, the real value of the VRDP Shares and dividends on VRDP Shares declines. In an inflationary period, however, it is expected that, through the remarketing process, the VRDP Shares dividend rates would increase, tending to offset this risk.

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

Concentration in California Issuers. The Fund's policy of investing primarily in municipal securities of issuers located in California makes the Fund more susceptible to adverse economic, political or regulatory occurrences affecting such issuers. See The Fund's Investments Special Considerations Relating to California Municipal Securities.

Credit Risk. Credit risk is the risk that an issuer of a municipal security held in the Fund's portfolio will become unable to meet its obligation to make interest and principal payments. In general, lower rated municipal securities carry a greater degree of credit risk. If rating agencies lower their ratings of municipal securities in the Fund's portfolio, the value of those securities could decline, which could jeopardize the rating agencies ratings of the VRDP Shares. Because the primary source of income for the Fund is the interest and principal payments on the municipal securities in which it invests, any default by an issuer of a municipal security could have a negative impact on the Fund's ability to pay dividends on the VRDP Shares and could result in the redemption of some or all of the VRDP Shares.

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

Table of Contents

valuation of some of the Fund's municipal securities uncertain and/or result in sudden and significant valuation increases or declines in its holdings. If there is a significant decline in the value of the Fund's portfolio, this may impact the asset coverage levels for the VRDP Shares and any other outstanding leverage (whether through other Preferred Shares or tender option bonds) the Fund may have. In addition, illiquidity and volatility in the credit markets may directly and adversely affect the setting of dividend rates on the VRDP Shares.

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 the Fund's portfolio is generally less than that for corporate equities or bonds, and the Fund's investment performance may therefore be more dependent on the Investment Adviser's analytical abilities than if the Fund were to invest in stocks or taxable bonds. The secondary market for municipal securities, particularly the below investment grade bonds in which the Fund may invest, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's abilities to sell its municipal securities at attractive prices or at prices approximating those at which the 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.

In response to the current national economic downturn, governmental cost burdens may be reallocated among federal, state and local governments. Also, as a result of the downturn, many state and local governments are experiencing significant reductions in revenues and consequently difficulties meeting ongoing expenses. As a result, certain of these state or local governments may have difficulty paying principal or interest on their outstanding debt and may experience ratings downgrades of their debt. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of municipal securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. Any income derived from the Fund's ownership or operation of such assets may not be tax-exempt.

Revenue bonds issued by state or local agencies to finance the development of low-income, multi-family housing involve special risks in addition to those associated with municipal securities generally, including that the underlying properties may not generate sufficient income to pay expenses and interest costs. These bonds are generally non-recourse against the property owner, may be junior to the rights of others with an interest in the properties, may pay interest that changes based in part on the financial performance of the property, may be prepayable without penalty and may be used to finance the construction of housing developments which, until completed and rented, do not generate income to pay interest. Additionally, unusually high rates of default on the underlying mortgage loans may reduce revenues available for the payment of principal or interest on such mortgage revenue bonds.

Table of Contents

Insurance Risk. The Fund may purchase municipal securities that are additionally 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. Many significant providers of insurance for municipal securities have recently incurred significant 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, leading at least one municipal bond insurer to file for bankruptcy. As a result, such losses have reduced the insurers' capital and called into question their 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 decline and the insurance may not add any value. As concern has increased about the balance sheets of insurers, prices on insured bonds especially those bonds issued by weaker underlying credits declined. Most insured bonds are currently being valued according to their fundamentals as if they were uninsured. 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.

In addition, the Fund may be subject to certain restrictions on investments imposed by guidelines of the insurance companies issuing Portfolio Insurance. The Fund does not expect these guidelines to prevent the Investment Adviser from managing the Fund's portfolio in accordance with the Fund's investment objectives and policies.

Special Risks Related to Certain Municipal Securities. The Fund may invest in municipal leases and certificates of participation in such leases. Municipal leases and certificates of participation involve special risks not normally associated with general obligations or revenue bonds. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of non-appropriation clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event that the governmental issuer is prevented from maintaining occupancy of the lease premises or utilizing the leased equipment. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of 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 ownership of the assets may be a remedy available to the Fund, although the Fund does not anticipate that such a remedy would normally be pursued. To the extent that the Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. Certificates of participation, which represent interests in unmanaged pools of municipal leases or installment contracts, involve the same risks as the underlying municipal leases. In addition, the Fund may be dependent upon the municipal authority issuing the certificate of participation to exercise remedies with respect to the underlying securities. Certificates of participation

Table of Contents

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.

Personnel Turnover Risk. As a result of current deteriorating market conditions or other reasons, Nuveen Investments and the Investment Adviser may need to implement cost reductions in the future which could make the retention of qualified and experienced personnel more difficult and could lead to personnel turnover.

Income Risk. The Fund's income is based primarily on the interest it earns from its investments, which can vary widely over the short and long term. If interest rates drop, the Fund's income available over time to make dividend payments with respect to the VRDP Shares could drop as well if the Fund purchases securities with lower interest coupons. This risk is magnified when prevailing short-term interest rates increase and the Fund holds residual interest municipal bonds.

Reinvestment Risk. Reinvestment risk is the risk that income from the Fund's bond portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that will result in a decrease in the portfolio's current earnings rate.

Call Risk. If interest rates fall, it is possible that issuers of callable bonds with higher interest coupons will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during a period of declining interest rates, the Fund is likely to replace such called security with a lower yielding security.

Economic Sector Risk. The Fund may invest 25% or more of its total assets in municipal securities in the same economic sector. This may make the Fund more susceptible to adverse economic, political or regulatory occurrences affecting an economic sector. As concentration increases, so does the potential for fluctuation in the value of the Fund's assets.

Non-Diversification. Because the Fund is classified as non-diversified under the 1940 Act it can invest a greater portion of its assets in obligations of a single issuer. As a result, the Fund will be more susceptible than a more widely diversified fund to any single corporate, economic, political or regulatory occurrence. See The Fund's Investments. Also, the Fund's policy of generally investing in bonds that are exempt from the federal alternative minimum tax applicable to individuals may prevent the Fund from investing in certain kinds of bonds and thereby limit the Fund's ability to optimally diversify its portfolio. In addition, the Fund must satisfy certain asset diversification rules in order to qualify as a regulated investment company for federal income tax purposes.

Derivatives Risk. The Fund may use derivatives or other transactions for investment purposes or for hedging the portfolio's exposure to high yield credit risk and the risk of increases in interest rates, which could result in poorer overall performance for the Fund. The Fund's use of derivatives or other transactions to reduce risk involves costs and will be subject to the Investment 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 Investment Adviser's judgment in this respect will be correct. In addition, no assurance can be given that the Fund will enter into hedging or other transactions at times or under circumstances in which it may be advisable to do so. See The Fund's Investments Derivatives and Hedging Strategies.

Reliance on Investment Adviser. The Fund is dependent upon services and resources provided by its Investment Adviser, and therefore the Investment Adviser's parent, Nuveen Investments.

Table of Contents

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.

Certain Affiliations of the Fund. Certain broker-dealers may be considered to be affiliated persons of the Fund, the Investment Adviser, Sub-Adviser and/or Nuveen. Absent an exemption from the Securities and Exchange Commission or other regulatory relief, the Fund is generally 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 the Fund's ability to engage in securities transactions and take advantage of market opportunities.

Certain Affiliations of the Liquidity Provider and Remarketing Agent for New Series 4 and 5. The Liquidity Provider and the Remarketing Agent for each of New Series 4 and 5, respectively, will be affiliates of each other (as is currently the case for those entities). In addition, the Remarketing Agent for New Series 4 is also the Remarketing Agent for New Series 3. Because the Liquidity Provider and its affiliated Remarketing Agent serve multiple roles, such affiliated entities may be subject to potential conflicts of interest in connection with their various legal duties and contractual obligations relating to the VRDP Shares of each applicable Series. These affiliations could, among other things, affect the Remarketing Agent's determination of the Applicable Rate and the Fund's ability to change Remarketing Agents should the Fund seek to do so during the tenure of the affiliated Liquidity Provider.

Anti-Takeover Provisions. The Fund's Declaration and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status.

CERTAIN INCOME TAX CONSIDERATIONS

Any discussion of U.S. federal and state tax considerations in this Information Memorandum was written in connection with the promotion and marketing by the Fund of the New VRDP Shares. Such discussion was not intended or written to be legal or tax advice to any person and was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any U.S. federal and state tax penalties. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

The discussion below is the opinion of Sidley Austin LLP (Tax Counsel) on the anticipated U.S. federal and California income tax consequences of holding and disposing of the New VRDP Shares. Vedder Price P.C. will provide an opinion on the anticipated U.S. federal income tax consequences of certain aspects of the Reorganization, including an opinion to the effect that the issuance of New VRDP Shares in connection with the Reorganization will not result in gain or loss to the issuing Fund or to a holder of the Acquired Fund VRDP Shares (except to the extent of any cash received in lieu of fractional shares).

Because the discussion below is general in nature and does not address all of the tax consequences related to the New VRDP Shares and because the tax laws governing the New VRDP Shares and their acquisition are complex, you should consult your tax advisor about the tax consequences of acquiring and holding the New VRDP Shares under your particular circumstances before voting on the Reorganization.

Table of Contents**Federal Income Tax Matters**

Tax Counsel's opinions are based on the current provisions and interpretations of the Internal Revenue Code of 1986, as amended (the Code) and the accompanying Treasury regulations and on current judicial and administrative rulings. All of these authorities are subject to change and any change can apply retroactively.

Upon issuance of the New VRDP Shares in connection with the Reorganizations, and subject to certain assumptions and conditions, and based upon certain representations made by the Fund, including representations regarding the terms of the exchange, the nature of the Fund's assets and the conduct of the Fund's business, Tax Counsel will deliver its opinion concluding that for federal income tax purposes (1) the Fund will qualify as a regulated investment company under the Code, (2) the New VRDP Shares will qualify as stock in the Fund, and (3) distributions made with respect to the New VRDP Shares will qualify as tax-exempt dividends to the extent reported by the Fund and not otherwise limited under Section 852(b)(5)(A) of the Code (under which the total amount of dividends that may be reported as tax exempt dividends is limited, based on the total amount of tax exempt income generated by the Fund).

Investors should be aware that Tax Counsel's opinions are not binding on the Internal Revenue Service or any court. See the discussions below under the captions Treatment of New VRDP Shares as Stock and Demand Feature as Part of Stock. In addition, the Fund's qualification and taxation as a regulated investment company depends upon the Fund's ability to meet on a continuing basis, through actual annual operating results, certain requirements in the federal tax laws. Tax Counsel will not review the Fund's compliance with those requirements. Accordingly, no assurance can be given that the actual results of the Fund's operations for any particular taxable year will satisfy such requirements.

Qualification and Taxation of the Fund. The Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Code, and intends to distribute substantially all of its net income and gains to its shareholders. Therefore, it is not expected that the Fund will be subject to any federal income tax to the extent its earnings are so distributed. To qualify under Subchapter M for tax treatment as a regulated investment company, the Fund must, among other requirements: (a) distribute to its shareholders at least 90% of the sum of (i) its investment company taxable income (as that term is defined in the Code) determined without regard to the deduction for dividends paid and (ii) its net tax-exempt income (the excess of its gross tax-exempt interest income over certain disallowed deductions) and (b) diversify its holdings so that, at the end of each fiscal quarter of the Fund (i) at least 50% of the market value of the Fund's assets is represented by cash, cash items, U.S. government securities, securities of other regulated investment companies, and other securities, with these other securities limited, with respect to any one issuer, to an amount not greater in value than 5% of the Fund's total assets, and to not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the market value of the Fund's assets is invested in the securities of any one issuer (other than U.S. government securities or securities of other regulated investment companies), two or more issuers controlled by the Fund and engaged in the same, similar or related trades or businesses or one or more qualified publicly traded partnerships. In meeting these requirements of Subchapter M of the Code, the Fund may be restricted in the utilization of certain of the investment techniques described under The Fund's Investments Investment Objectives and Policies and Other Investment Policies and Techniques. If in any year the Fund should fail to qualify under Subchapter M for tax treatment as a regulated investment company, the Fund would

Table of Contents

incur a regular federal corporate income tax on its taxable income for that year, and distributions to its shareholders would be taxable to such holders as ordinary income to the extent of the earnings and profits of the Fund.

A regulated investment company that fails to distribute, by the close of each calendar year, an amount equal to the sum of 98% of its ordinary taxable income for such year and 98.2% of its capital gain net income for the one year period ending October 31 in such year, *plus* any shortfalls from the prior year's required distribution, is liable for a 4% excise tax on the excess of the required distribution for such calendar year over the distributed amount for such calendar year. To avoid the imposition of this excise tax, the Fund generally intends to make the required distributions of its ordinary taxable income, if any, and its capital gain net income, to the extent possible, by the close of each calendar year.

Treatment of New VRDP Shares as Stock. In order for any distributions to owners of the Fund's New VRDP Shares to be eligible to be treated as exempt-interest dividends, the New VRDP Shares must be classified as stock for federal income tax purposes. The Investment Adviser believes and, as discussed above, Tax Counsel will deliver its opinion concluding that, the New VRDP Shares will qualify as stock in the Fund for federal income tax purposes. By acquiring New VRDP Shares, an investor agrees to treat the New VRDP Shares as stock for federal income tax purposes.

Distributions on New VRDP Shares. A New VRDP shareholder will be required to report the dividends declared by the Fund for each day on which such New VRDP shareholder is the shareholder of record. Distributions, if any, in excess of the 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). As long as the Fund qualifies as a regulated investment company under the Code, no part of its distributions to shareholders will qualify for the dividends received deduction available to corporate shareholders.

Tax Character of Distributions

In General. The tax character of the Fund's distributions in the hands of the Fund's shareholders will be primarily determined by the tax character of the Fund's underlying income. Although the Fund expects that most of its income will be tax-exempt, some of the Fund's income may be taxable as capital gains or ordinary income. In addition, although the Fund expects that under normal circumstances it will not invest in municipal bonds the interest on which is subject to the federal alternative minimum tax, at times a portion of the Fund's tax-exempt income may be subject to the federal alternative minimum tax. The Internal Revenue Service requires a regulated investment company that has two or more classes of shares outstanding to designate to each such class proportionate amounts of each type of its income for each tax year based upon the percentage of total dividends distributed to each class for such year. The Fund intends each year to allocate, to the fullest extent practicable, net tax-exempt interest, net capital gain and ordinary income, if any, between its Common Shares and New VRDP Shares in proportion to the total dividends paid to each class with respect to such year. To the extent permitted under applicable law, the Fund reserves the right to make special allocations of income within a class, consistent with the objectives of the Fund.

Exempt-Interest Dividends. The Fund intends to qualify to pay exempt-interest dividends, as defined in the Code, on its Common Shares and New VRDP Shares 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 consists of tax-exempt municipal bonds. Exempt-interest dividends are dividends paid by the Fund that are attributable to interest on municipal bonds and are so reported by the Fund in written statements to its

Table of Contents

shareholders. The Fund intends to invest primarily in municipal bonds the income of which is otherwise exempt from regular federal and California personal income taxes and the federal alternative minimum tax. Thus, substantially all of the Fund's dividends to the Common Shareholders and New VRDP shareholders will qualify as exempt-interest dividends. Exempt-interest dividends will be exempt from federal income tax, subject to the possible application of the federal alternative minimum tax.

Exempt-Interest Dividends Subject to the Federal Alternative Minimum Tax. Federal tax law imposes a federal alternative minimum tax with respect to corporations, individuals, trusts and estates. Interest on certain municipal securities, such as bonds issued to make loans for housing purposes or to private entities (but not to certain tax-exempt organizations such as universities and non-profit hospitals) 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 Fund receives income from municipal securities subject to the federal alternative minimum tax, a portion of the dividends paid by it, although otherwise exempt from federal income tax, will be taxable to its shareholders to the extent that their tax liability is determined under the federal alternative minimum tax. The Fund will annually supply a report indicating the percentage of the Fund's income attributable to municipal securities subject to the federal alternative minimum tax. In addition, for certain corporations, 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 all distributions by the 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.

Dividends Attributable to Ordinary Income and Capital Gains. Distributions to shareholders by the Fund of net income received, if any, from taxable temporary investments and net short-term capital gains, if any, realized by the Fund will be taxable to its shareholders as ordinary income. In addition, gains of the Fund that are attributable to market discount on municipal securities will be treated as ordinary income. Distributions by the Fund of net capital gain (that is, 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 Common Shares or New VRDP Shares of the Fund. The amount of capital gains and ordinary income allocable to the Fund's New VRDP Shares will depend upon the amount of such income realized by the Fund, but is not generally expected to be significant. Except for dividends paid on New VRDP Shares that include an allocable portion of any net capital gain or ordinary income, the Fund anticipates that all other dividends paid on VRDP Shares will constitute exempt-interest dividends for federal income tax purposes.

The Fund may notify the Remarketing Agent of the amount of any net capital gain or ordinary income taxable for regular federal and California personal income tax purposes to be included in any dividend on New VRDP Shares prior to the Rate Determination Date establishing the Applicable Rate for such dividend. If the Fund allocates any net capital gain or ordinary income for regular federal and California personal income tax purposes to New VRDP Shares without having given such advance notice, the Fund will make certain payments to owners of New VRDP Shares to which such allocation was made to offset the federal and California income tax effect thereof.

Sales, Exchanges and Other Dispositions of New VRDP Shares. On the sale or other disposition of New VRDP Shares (other than redemptions, the rules for which are described below under the caption "Redemptions of New VRDP Shares"), the amount paid for the seller's right to any dividends that are accumulated but unpaid at the time of such sale or other disposition will be treated

Table of Contents

as dividends and subject to the rules described above under the caption Tax Character of Distributions. The balance of the amount paid, will generally be treated as (1) capital gain to the extent it exceeds the seller's basis in the New VRDP Shares, and (2) capital loss to the extent it is less than the seller's basis in the New VRDP Shares. Present law taxes both long-term and short-term capital gains of corporations at the rates applicable to ordinary income. Short-term capital gains and ordinary income will be taxable to non-corporate taxpayers at a maximum rate of 35% while long-term capital gains will generally be taxable to non-corporate taxpayers at a maximum rate of 15%. These rates are scheduled to sunset, for taxable years beginning after December 31, 2012, and in the absence of legislative action, short-term capital gains and ordinary income will be taxable to non-corporate taxpayers at a maximum rate of 39.6% while long-term capital gains will generally be taxable to non-corporate taxpayers at a maximum rate of 20%. Because of certain limitations on itemized deductions and the deduction for personal exemptions applicable to higher income taxpayers, the effective rate of tax may be higher in certain circumstances.

Losses realized by a shareholder on the sale or exchange of New VRDP Shares held for six months or less are disallowed to the extent of any distribution of exempt-interest dividends received (or deemed received on a sale) with respect to such shares, and, if not disallowed, such losses are treated as long-term capital losses to the extent of any distribution of long-term capital gain received with respect to such shares. For purposes of determining whether New VRDP Shares have been held for six months or less, the holding period will be suspended by reason of the VRDP Purchase Agreement, thus causing the rule described in the preceding sentence to apply.

Any loss realized on a sale or exchange of New VRDP Shares will be disallowed to the extent those shares are replaced by other shares 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 of the Fund will be adjusted to reflect the disallowed loss.

Redemptions of New VRDP Shares. Gain or loss, if any, resulting from a redemption of the New VRDP Shares will be taxed as gain or loss from the sale or exchange of the VRDP Shares under Section 302 of the Code rather than as a dividend, but only if the redemption distribution (a) is deemed not to be essentially equivalent to a dividend, (b) is in complete redemption of an owner's interest in the Fund, (c) is substantially disproportionate with respect to the owner, or (d) with respect to non-corporate owners, is in partial liquidation of the Fund. For purposes of (a), (b) and (c) above, a shareholder's ownership of the Common Shares will be taken into account.

Insurance Proceeds and Non-Appropriation Leases. Insurance proceeds received by the Fund under any insurance policies in respect of scheduled interest payments on defaulted municipal bonds, as described herein, will generally be excludable from federal gross income under Section 103(a) of the Code. Distributions payable from such insurance proceeds will, therefore, generally qualify as exempt-interest dividends. In the case of non-appropriation by a political subdivision, however, there can be no assurance that payments made by the issuer representing interest on such non-appropriation municipal lease obligations will be excludable from gross income for federal income tax purposes. Consequently, in the case of non-appropriation, distributions payable from municipal lease obligations may not qualify as exempt-interest dividends. See The Fund's Investments Investment Objectives and Policies.

Consequences of Insufficient Distributions. If at any time when the Fund's New VRDP Shares are outstanding the Fund fails to meet the VRDP Basic Maintenance Amount or the Minimum VRDP Asset Coverage, the Fund will be required to suspend distributions to holders of its Common

Table of Contents

Shares until such maintenance amount or asset coverage, as the case may be, is restored. This may prevent the Fund from distributing at least 90% of its investment company taxable income and net tax-exempt income (as that term is defined in the Code) determined without regard to the deduction for dividends paid, and may therefore jeopardize the Fund's qualification for taxation as a regulated investment company or cause the Fund to incur an income tax liability or the non-deductible 4% excise tax on the undistributed taxable income (including gain), or both. Upon failure to meet the VRDP Basic Maintenance Amount or the Minimum VRDP Asset Coverage, the Fund will be required to redeem New VRDP Shares in order to maintain or restore such maintenance amount or asset coverage and avoid the adverse consequences to the Fund and its shareholders of failing to qualify as a regulated investment company. There can be no assurance, however, that any such redemption would achieve such objectives.

In addition, certain of the 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 Fund and affect the holding period of securities held by the Fund and the character of the gains or losses realized by the Fund. These provisions may also require the 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 income and excise taxes. The 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 Fund as a regulated investment company.

Treatment of Substantial Users. 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 Fund may not be an appropriate investment for shareholders who are 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 non-exempt person who regularly uses a part of such facility in his trade or business. Related persons are in general defined to include persons between whom there exists a relationship, either by family or business, which would result in a disallowance of losses in transactions between 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.

Demand Feature as Part of Stock. The treatment of the demand feature under the VRDP Purchase Agreement as part of the New VRDP Shares is not binding on the Internal Revenue Service or any court. If a New VRDP Share and the demand feature under the VRDP Purchase Agreement are treated as separate property rights (for example, as a share of stock and an option), then the tax consequences to investors, including the timing and character of income, gain and loss, will be different from those described in this Information Memorandum. You should consult your tax advisor about the tax consequences to you if New VRDP Shares and the demand feature under the VRDP Purchase Agreement are treated as separate property rights.

Financing New VRDP Shares With Debt. The Code provides that interest on indebtedness incurred or continued to purchase or carry the Fund's shares to which exempt-interest dividends are allocated is not deductible. Under rules used by the Internal Revenue Service for determining whether

Table of Contents

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.

Impact of Tax-Exempt Income on Other Tax Calculations. Tax-exempt income, including exempt-interest dividends paid by the Fund, is taken into account in calculating the amount of social security and railroad retirement benefits that may be subject to federal income tax.

Foreign Investors. Nonresident alien individuals and certain foreign corporations and other entities (foreign investors) generally are subject to U.S. withholding tax at the rate of 30% (or possibly a lower rate provided by an applicable tax treaty) on distributions of taxable net investment income and net short-term capital gain. To the extent received by foreign investors, exempt-interest dividends, distributions of net long-term capital gain and gain from the sale or other disposition of New VRDP Shares generally are exempt from U.S. taxation. Different tax consequences may result if the owner is engaged in a trade or business in the United States or, in the case of an individual, is present in the United States for more than 182 days during a taxable year.

Reporting and Backup Withholding. 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 Fund. A New VRDP shareholder will be required to report the dividends declared by the Fund for each day on which such New VRDP shareholder is the shareholder of record. Through the end of 2012, the Fund is required in certain circumstances to withhold 28% of taxable dividends and certain other amounts paid to non-corporate holders of the Fund's shares who do not furnish to the Fund their correct taxpayer identification number (in the case of individuals, their social security number) and certain certifications, or who are otherwise subject to backup withholding. In the absence of legislative action, the backup withholding rate will increase to 31% starting in 2013.

The foregoing is a general summary of the provisions of the Code and regulations thereunder presently in effect as they directly govern the taxation of the Fund and its New VRDP shareholders. These provisions are subject to change by legislative, judicial or administrative action, and any such change may be retroactive. Moreover, the foregoing does not address many of the factors that may be determinative of whether an investor will be liable for the federal alternative minimum tax. Shareholders are advised to consult their own tax advisors for more detailed information concerning the regular federal income tax and federal alternative minimum income tax consequences of purchasing, holding and disposing of New VRDP Shares.

California Tax Matters

Tax Counsel's opinions are based on the provisions and interpretations of the California Revenue and Taxation Code (the CRTC) and the accompanying administrative regulations in effect at the time of the opinion and on judicial and administrative rulings then in effect. All of these authorities are subject to change and any change can apply retroactively. Upon issuance of the New VRDP Shares in connection with the Reorganizations, and subject to certain assumptions and conditions, and based upon certain representations made by the Fund, Tax Counsel will deliver its opinion concluding that for California personal income tax purposes distributions made with respect to the New VRDP Shares will qualify as tax-exempt dividends to the extent properly reported by the Fund and not otherwise limited under Sections 17088 and 17145 of the CRTC.

Table of Contents

The following is based on the assumptions that the Fund will qualify under Subchapter M of the Code as a regulated investment company, that it will satisfy the conditions that will cause distributions by the Fund to qualify as exempt-interest dividends to shareholders, and that it will distribute all interest and dividends it receives to the shareholders.

The Fund will be subject to the California corporate franchise and corporation income tax only if it has a sufficient nexus with California.

If at the close of each quarter of the Fund's taxable year at least 50% of the aggregate value of its total assets consists of obligations that, when held by individuals, pay interest that is exempt from tax by California under California or federal law, then distributions by the Fund that are attributable to interest on any such obligation will not be subject to the California personal income tax; provided that such distributions are properly reported as exempt-interest dividends in written statements furnished to the Fund's shareholders. All other distributions, including distributions attributable to capital gains, will be includable in gross income for purposes of the California personal income tax.

Interest on indebtedness incurred or continued for the purpose of acquiring or maintaining an investment in the New VRDP Shares will not be deductible for purposes of the California personal income tax.

All distributions of the Fund, regardless of source, to corporate shareholders that are subject to the California corporate franchise tax will be included in gross income for purposes of such tax, notwithstanding that all or a portion of such distributions may be exempt from California personal income tax.

Gain on the sale, exchange, or other disposition of New VRDP Shares will be subject to the California personal income and corporate franchise tax. In addition, any loss realized by a New VRDP shareholder upon the sale of shares held for six months or less may be disallowed to the extent of any exempt interest dividends received with respect to such shares. For purposes of determining whether New VRDP Shares have been held for six months or less, the holding period will be suspended by reason of the VRDP Purchase Agreement, thus causing the rule described in the preceding sentence to apply. Moreover, any loss realized upon the sale of New VRDP Shares within thirty days before or after the acquisition of other New VRDP Shares may be disallowed under the "wash sale" rules.

New VRDP Shares may be subject to the California estate tax if held by a California decedent at the time of death.

The foregoing is a general summary of certain provisions of the applicable California tax law as presently in effect as it directly governs the taxation of resident individual and corporate holders of New VRDP Shares. These provisions are subject to change by legislative, judicial or administrative action, and any such change may be retroactive. This summary does not address the taxation of other shareholders nor does it discuss any local taxes that may be applicable. Shareholders should consult with their own tax advisor for more detailed information concerning California state and local tax matters.

Table of Contents

HOW THE FUND MANAGES PORTFOLIO RISK

Investment Limitations

The Fund has adopted certain investment limitations designed to limit investment risk and maintain portfolio diversification. These limitations are fundamental and may not be changed without the approval of the holders of a majority of the outstanding Common Shares and VRDP Shares voting together as a single class, and the approval of the holders of a majority of the outstanding VRDP Shares voting as a separate class. When used with respect to particular shares of the Fund, a majority of the outstanding shares means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (ii) more than 50% of the shares, whichever is less. Among other restrictions, the Fund may not invest more than 25% of total Fund assets in securities of issuers in any one industry, except that this limitation does not apply to municipal bonds backed by the assets and revenues of governments or political subdivisions of governments, or invest more than 5% of its total assets in securities of any one issuer, except that this limitation does not apply to bonds issued by the United States government, its agencies and instrumentalities or to the investment of 25% of its total assets. The Fund may become subject to guidelines which are more limiting than the investment restrictions set forth above in order to obtain and maintain ratings from Moody's or S&P on the VRDP Shares. See The Fund's Investments Investment Restrictions for a complete list of the fundamental and non-fundamental investment policies of the Fund.

The Fund seeks to reduce credit risk by buying municipal securities which, at the time of purchase, are (i) rated BBB/Baa or better by an NRSRO or covered by insurance from insurers with a claims-paying ability rated BBB/Baa or better by an NRSRO; (ii) unrated, but judged to be of comparable quality by the Investment Adviser; or (iii) backed by an escrow or trust account containing sufficient U.S. Government or U.S. Government agency securities to ensure timely payment of principal and interest.

Hedging Strategies

The Fund may use various investment strategies designed to limit the risk of bond price fluctuations and to preserve capital. These hedging strategies include using 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 Investment Adviser, correlate with the prices of the Fund's investments. Successful implementation of most hedging strategies would generate taxable income. See The Fund's Investments Derivatives and Hedging Strategies.

DESCRIPTION OF COMMON SHARES

The Fund's declaration of trust, as amended (the Declaration of Trust), authorizes an unlimited amount of common shares, par value \$.01 per share. If the Reorganizations are approved, the Fund will issue additional common shares to the common shareholders of each Acquired Fund based on the relative aggregate per share net asset value of the Fund and the net asset values of the assets of such Acquired Fund that are transferred in the Reorganization, in each case as of the closing date of the Reorganization.

The terms of the Fund common shares to be issued pursuant to the Reorganizations will be identical to the terms of the Fund common shares that are then outstanding. All the Fund common

Table of Contents

shares have equal rights with respect to the payment of dividends and the distribution of assets upon liquidation. The 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.

Whenever VRDP Shares are outstanding, common shareholders will not be entitled to receive any distributions from the Fund unless all accumulated dividends on VRDP Shares have been paid, and unless asset coverage (as defined in the 1940 Act) with respect to VRDP Shares would be at least 200% after giving effect to the distributions.

NET ASSET VALUE

The 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 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 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 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 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.

CERTAIN PROVISIONS IN THE DECLARATION OF TRUST AND BY-LAWS

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the 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 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 Fund would be unable to meet its obligations. The Fund believes that the likelihood of such circumstances is remote.

The 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 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

Table of Contents

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 Declaration of Trust or the 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 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 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 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 Declaration of Trust or the Fund's By-Laws, the affirmative vote of the holders of at least a majority of the 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 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 Fund's Board believes that the provisions of the Fund Declaration of Trust relating to such higher votes are in the best interest of the Fund.

The Declaration of Trust provides that the obligations of the 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 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.

The provisions of the 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 Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of

Table of Contents

the Fund's investment objectives and policies. The Fund's Board has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund.

The 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 Fund's Declaration of Trust on file with the SEC for the full text of these provisions.

REPURCHASE OF COMMON SHARES; CONVERSION TO OPEN-END FUND

The Fund is a closed-end management investment company, and as such its shareholders do not have the right to cause the Fund to redeem their common shares. Instead, the common shares of the 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 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 Fund to an open-end investment company. The Fund cannot assure you that its 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 Fund's VRDP Shares are outstanding, the Fund may not purchase, redeem or otherwise acquire any of its common shares unless (1) all accumulated but unpaid VRDP 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 Fund's portfolio (determined after deducting the acquisition price of the common shares) is at least 200% of the liquidation value of the outstanding preferred shares, including VRDP Shares (expected to equal the original purchase price per share plus any accumulated but unpaid dividends thereon). Any service fees incurred in connection with any tender offer made by the Fund will be borne by the Fund and will not reduce the stated consideration to be paid to tendering shareholders.

If the Fund converted to an open-end investment company, it would be required to redeem all its preferred shares, including VRDP 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, common 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 Declaration of Trust and By-Laws above for a discussion of the voting requirements applicable to the conversion of the 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

Table of Contents

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 common shares should trade at a discount, the Board may determine that, in the interest of the Fund, no action should be taken.

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT, REDEMPTION AGENT AND REMARKETING AGENT

The custodian of the assets of the Fund is State Street Bank and Trust Company, One Lincoln Street, Boston, Massachusetts 02111 (State Street). The custodian performs custodial, fund accounting and portfolio accounting services and also serves as the Fund's transfer, shareholder services and dividend paying agent with respect to the Fund's common shares.

It is anticipated that the Tender and Paying agent for each VRDP Series of the Fund will be The Bank of New York Mellon, Corporate Trust Division, Dealing and Trading Group, 101 Barclay Street, Floor 7W, New York, N.Y. 10286. The Tender and Paying Agent will act as the Fund's tender agent, transfer agent and registrar, dividend disbursing agent, paying agent and redemption price disbursing agent with respect to each series of VRDP Shares.

The Fund anticipates that it will enter into a remarketing agreement with each of Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013 (Citigroup) and Morgan Stanley & Co LLC, 1585 Broadway, New York, New York 10036 (Morgan Stanley) such that Citigroup will continue to serve as the Remarketing Agent with respect to the series of VRDP Shares to be issued in exchange for Premium Income 2 VRDP Shares and Morgan Stanley will continue to serve as the Remarketing Agent with respect to the two new series of VRDP Shares to be issued in exchange for Premium Income and Dividend Advantage VRDP Shares. Citigroup will continue to serve as the Remarketing Agent for the series of VRDP Shares of the Fund presently outstanding. For more information on the role of the Remarketing Agent, please see the Statements.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Fund's audited financial statements for the fiscal year ended February 28, 2011 are incorporated in this Information Memorandum by reference to its 2011 Annual Report. The 2011 Annual Report has been audited by Ernst & Young LLP, 233 South Wacker Drive, Chicago, Illinois 60606, an independent registered public accounting firm, as set forth in their report thereon.

AVAILABLE INFORMATION

The Fund is subject to the informational requirements of the Exchange Act and the 1940 Act and is required to file reports, proxy statements and other information with the Securities and Exchange Commission. These documents can be inspected and copied for a fee at the Securities and Exchange Commission's public reference room, 100 F Street, N.E., Washington, D.C. 20549, and Northeast Regional Office, Woolworth Building, 233 Broadway, New York, New York 10013-2409 or by written request to the Branch of Public Reference via email at publicinfo@sec.gov, by fax at (202) 777-1030 or by mail at 100 F Street, NE Washington D.C. 20549. The Securities and Exchange Commission also maintains an internet site that contains reports, proxy and information statements and other information regarding issuers at <http://www.sec.gov>.

Table of Contents

The Fund's audited financial statements for the fiscal year ended February 28, 2011, together with the report of Ernst & Young LLP thereon, and the semi-annual report for the period ended August 31, 2011 are incorporated in this Information Memorandum by reference. Information about the trustees and officers of the Fund is incorporated in this Information Memorandum by reference to the Fund's 2011 Annual Report and the January __, 2012 Joint Proxy Statement relating to the annual shareholder meeting, proposed Reorganizations and fundamental investment policy proposals as filed with the Securities and Exchange Commission. A copy of the Annual and Semi-Annual Reports and the Joint Proxy Statement may be obtained from www.sec.gov or by visiting www.nuveen.com. Other than the financial statements of the Fund included in the Fund's 2011 Annual and Semi-Annual Report and the Joint Proxy Statement, the information contained in, or that can be accessed through, the Securities and Exchange Commission's or the Fund's website is not part of this Information Memorandum.

If at any time the Fund or any Liquidity Provider (or its bank holding company, as the case may be) is not subject to Section 13(a) or 15(d) of the Exchange Act, the Fund or a Liquidity Provider, as the case may be, will furnish to VRDP shareholders and prospective investors, upon their request, the information specified in Rule 144A(d)(4) under the Securities Act in order to permit compliance with Rule 144A in connection with resales of VRDP Shares.

Statements in this Information Memorandum about the contents of any contract or other document are not necessarily complete. Copies of the Statements, VRDP Purchase Agreements, Remarketing Agreements and Tender and Paying Agent Agreements for the Acquired Funds and the Fund, as well as the proposed forms thereof for the New VRDP Series of the Fund, are available upon request from the Fund, and each statement herein about the contents of such documents is qualified in all respects by reference to such documents.

Table of Contents

**Appendix A to
Information Memorandum**

NUVEEN INSURED CALIFORNIA TAX-FREE ADVANTAGE MUNICIPAL FUND (NKX)

STATEMENT ESTABLISHING AND FIXING THE

RIGHTS AND PREFERENCES OF

VARIABLE RATE DEMAND PREFERRED SHARES (VRDP)

*(Relating to the issuance of VRDP by the above-named fund in
exchange for the outstanding Series 1 Variable Rate Demand Preferred Shares of
Nuveen Insured California Dividend Advantage Municipal Fund (NKL))*

Table of ContentsTABLE OF CONTENTS

	Page
<u>DESIGNATION OF SERIES [] VRDP</u>	4
<u>DEFINITIONS</u>	5
<u>PART I</u>	21
1. <u>Number of Authorized Shares.</u>	21
2. <u>Dividends.</u>	21
(a) <u>Ranking</u>	21
(b) <u>Cumulative Cash Dividends</u>	21
(c) <u>Dividends Cumulative from Date of Original Issue</u>	22
(d) <u>Dividend Payment Dates and Adjustment Thereof</u>	22
(e) <u>Applicable Rates and Calculation of Dividends.</u>	22
(f) <u>Curing a Failure to Deposit</u>	24
(g) <u>Dividend Payments by Fund to Tender and Paying Agent</u>	24
(h) <u>Tender and Paying Agent as Trustee of Dividend Payments by Fund</u>	25
(i) <u>Dividends Paid to Holders</u>	25
(j) <u>Dividends Credited Against Earliest Accumulated But Unpaid Dividends</u>	25
(k) <u>Dividends Designated as Exempt-Interest Dividends</u>	25
3. <u>Gross-Up Payments</u>	25
4. <u>Designation of Special Rate Periods.</u>	26
(a) <u>Length of and Preconditions for Special Rate Period</u>	26
(b) <u>Adjustment of Length of Special Rate Period</u>	26
(c) <u>Notice of Proposed Special Rate Period</u>	26
(d) <u>Notice of Special Rate Period</u>	27
(e) <u>Failure to Deliver Notice of Special Rate Period</u>	27
5. <u>Voting Rights.</u>	28
(a) <u>One Vote Per VRDP Share</u>	28
(b) <u>Voting for Additional Trustees.</u>	28
(c) <u>Holder of VRDP Shares to Vote on Certain Other Matters.</u>	29
(d) <u>Board May Take Certain Actions Without Shareholder Approval</u>	31
(e) <u>Voting Rights Set Forth Herein are Sole Voting Rights</u>	32
(f) <u>No Preemptive Rights or Cumulative Voting</u>	32
(g) <u>Voting for Trustees Sole Remedy for Fund's Failure to Pay Dividends</u>	32
(h) <u>Holder Entitled to Vote</u>	32
6. <u>Minimum VRDP Asset Coverage</u>	32
7. <u>VRDP Basic Maintenance Amount.</u>	32
8. <u>Restrictions on Dividends and Other Distributions.</u>	33
(a) <u>Dividends on Preferred Shares Other Than VRDP</u>	33
(b) <u>Dividends and Other Distributions With Respect to Common Shares Under the 1940 Act</u>	33
(c) <u>Other Restrictions on Dividends and Other Distributions</u>	33
9. <u>Short-Term Ratings.</u>	34

Table of Contents

	Page
10. <u>Redemption.</u>	34
(a) <u>Optional Redemption.</u>	34
(b) <u>Mandatory Redemption</u>	35
(c) <u>Notice of Redemption</u>	40
(d) <u>No Redemption Under Certain Circumstances</u>	40
(e) <u>Absence of Funds Available for Redemption</u>	40
(f) <u>Tender and Paying Agent as Trustee of Redemption Payments by Fund</u>	41
(g) <u>Deposit with the Tender and Paying Agent; Shares for Which Notice of Redemption Has Been Given Are No Longer Outstanding</u>	41
(h) <u>Compliance With Applicable Law</u>	41
(i) <u>Only Whole VRDP Shares May Be Redeemed</u>	41
(j) <u>Modification of Redemption Procedures</u>	42
11. <u>Liquidation Rights.</u>	42
(a) <u>Ranking</u>	42
(b) <u>Distributions Upon Liquidation</u>	42
(c) <u>Pro Rata Distributions</u>	42
(d) <u>Rights of Junior Shares</u>	42
(e) <u>Certain Events Not Constituting Liquidation</u>	43
12. <u>Purchase Obligation</u>	43
13. <u>Miscellaneous.</u>	45
(a) <u>Amendment of or Supplements to this Statement</u>	45
(b) <u>No Fractional Shares</u>	45
(c) <u>Status of VRDP Shares Redeemed, Exchanged or Otherwise Acquired by the Fund</u>	45
(d) <u>Purchase Obligation Part of VRDP Shares</u>	45
(e) <u>Treatment of VRDP Shares as Stock</u>	45
(f) <u>Board May Resolve Ambiguities</u>	45
(g) <u>Headings Not Determinative</u>	45
(h) <u>Notices</u>	45
<u>PART II</u>	
1. <u>Remarketing Procedures.</u>	45
2. <u>Remarketing Schedule.</u>	48
3. <u>Determination of Applicable Rate.</u>	50
4. <u>Failed Remarketing Condition</u>	51
5. <u>Purchase of VRDP Shares by Remarketing Agent</u>	51
6. <u>Notification of Allocations</u>	51
7. <u>Transfers.</u>	52
8. <u>Global Certificate.</u>	53

Table of Contents

NUVEEN INSURED CALIFORNIA TAX-FREE ADVANTAGE MUNICIPAL FUND

STATEMENT ESTABLISHING AND FIXING THE

RIGHTS AND PREFERENCES OF

VARIABLE RATE DEMAND PREFERRED SHARES

NUVEEN INSURED CALIFORNIA TAX-FREE ADVANTAGE MUNICIPAL FUND, a Massachusetts business trust (the **Fund**), hereby certifies that:

FIRST: Pursuant to authority expressly vested in the Board of Trustees of the Fund by Article IV of the Fund's Declaration of Trust, the Board of Trustees has, by resolution, authorized the issuance of preferred shares, \$.01 par value per share, classified as Variable Rate Demand Preferred Shares (**VRDP**) with a liquidation preference of \$100,000 per share in such one or more series as may be authorized and issued from time to time (each, a **Series**); and

SECOND: The preferences (including liquidation preference), voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption, of the shares of each Series of Variable Rate Demand Preferred Shares that are specifically designated below or in an amendment or supplement hereto are as follows or as set forth in such an amendment or supplement (each such Series being referred to herein as a Series of **VRDP**, and shares of all such Series being referred to herein individually as a **VRDP Share** and collectively as **VRDP Shares**):

DESIGNATION OF SERIES [] VRDP

Series []: A series of preferred shares, par value \$.01 per share, liquidation preference \$100,000 per share, is hereby authorized and designated Series [] Variable Rate Demand Preferred Shares, also referred to herein as Series [] **VRDP** or Series [] **VRDP Shares** or generally as **VRDP VRDP Shares**. Each share of Series [] **VRDP** shall be issued on a date determined by the Board of Trustees of the Fund or pursuant to their delegated authority; and have such other preferences, voting powers, limitations as to dividends, qualifications and terms and conditions of redemption, in addition to those required by applicable law or as set forth in the Declaration, as set forth in Parts I and II of this Statement. With respect to the initial issuance of Series [] **VRDP**, each share of Series [] **VRDP** shall have an Applicable Rate equal to the rate determined by the Remarketing Agent on the Acquired Fund **VRDP** (as defined below) on Wednesday, [], 2012, for the Initial Rate Period from, and including, the Date of Original Issue to, and including, [], 2012 and an initial Dividend Payment Date of [], 2012. The Series [] **VRDP** shall constitute a separate series of preferred shares of the Fund and each share of Series [] **VRDP** shall be identical.

The number of Series [] Variable Rate Demand Preferred Shares which the Board of Trustees has initially authorized for issuance is 1,044. The Board of Trustees may, from time to time, authorize the issuance of additional shares of Series [] Variable Rate Demand Preferred Shares in accordance with the terms hereof.

The initial issuance of a share of Series [] **VRDP Shares** shall be made in exchange for a share of Series 1 Variable Rate Demand Preferred Shares of Nuveen Insured California Dividend Advantage Municipal Fund (the **Acquired Fund VRDP**) in connection with the reorganization of Nuveen Insured California Dividend Advantage Municipal Fund (the **Acquired Fund**) as described in the Information Memorandum (as defined below).

Table of Contents

DEFINITIONS