

NUVEEN GEORGIA DIVIDEND ADVANTAGE MUNICIPAL FUND 2  
Form N-CSR  
August 07, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF  
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21152

Nuveen Georgia Dividend Advantage Municipal Fund 2  
(Exact name of registrant as specified in charter)

Nuveen Investments  
333 West Wacker Drive  
Chicago, IL 60606  
(Address of principal executive offices) (Zip code)

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Registrant's telephone number, including area code: (312) 917-7700

Date of fiscal year end: May 31

Date of reporting period: May 31, 2014

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

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Nuveen Investments to be acquired by TIAA-CREF

On April 14, 2014, TIAA-CREF announced that it had entered into an agreement to acquire Nuveen Investments, the parent company of your fund's investment adviser, Nuveen Fund Advisors, LLC ("NFAL") and the Nuveen affiliates that act as sub-advisers to the majority of the Nuveen Funds. TIAA-CREF is a national financial services organization with approximately \$569 billion in assets under management (as of March 31, 2014) and is a leading provider of retirement services in the academic, research, medical and cultural fields. Nuveen anticipates that it will operate as a separate subsidiary within TIAA-CREF's asset management business, and that its current leadership and key investment teams will stay in place.

Your fund investment will not change as a result of Nuveen's change of ownership. You will still own the same fund shares and the underlying value of those shares will not change as a result of the transaction. NFAL and your fund's sub-adviser(s) will continue to manage your fund according to the same objectives and policies as before, and we do not anticipate any significant changes to your fund's operations. Under the securities laws, the consummation of the transaction will result in the automatic termination of the investment management agreements between the funds and NFAL and the investment sub-advisory agreements between NFAL and each fund's sub-adviser(s). New agreements will be presented to the funds' shareholders for approval, and, if approved, will take effect upon consummation of the transaction or such later time as shareholder approval is obtained.

The transaction, expected to be completed by year end, is subject to customary closing conditions.

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Chairman's Letter to Shareholders

Dear Shareholders,

After significant growth in 2013, domestic and international equity markets have been less compelling during the first part of 2014. Concerns about deflation, political uncertainty in many places and the potential for more fragile economies to impact other countries have produced uncertainty in the markets.

Europe is beginning to emerge slowly from the recession in mid-2013, with improved GDP and employment trends in some countries. However, Japan's deflationary headwinds have resurfaced; and China shows signs of slowing from credit distress combined with declines in manufacturing and exports. Most recently, tensions between Russia and Ukraine may continue to hold back stocks and support government bonds in the near term.

Despite these headwinds, there are some encouraging signs of forward momentum in the markets. In the U.S., the news is more positive with financial risks slowly receding, positive GDP trends, downward trending unemployment and stronger household finances and corporate spending.

It is in such changeable markets that professional investment management is most important. Investment teams who have experienced challenging markets in the past understand how their asset class can behave in rapidly changing times. Remaining committed to their investment disciplines during these times is a critical component to achieving long-term success. In fact, many strong investment track records are established during challenging periods because experienced investment teams understand that volatile markets place a premium on companies and investment ideas that can weather the short-term volatility. By maintaining appropriate time horizons, diversification and relying on practiced investment teams, we believe that investors can achieve their long-term investment objectives.

As always, I encourage you to communicate with your financial consultant if you have any questions about your investment in a Nuveen Fund. On behalf of the other members of the Nuveen Fund Board, we look forward to continuing to earn your trust in the months and years ahead.

William J. Schneider  
Chairman of the Board  
July 21, 2014

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## Portfolio Managers' Comments

Nuveen Georgia Dividend Advantage Municipal Fund 2 (NKG)  
Nuveen Maryland Premium Income Municipal Fund (NMY)  
Nuveen Missouri Premium Income Municipal Fund (NOM)  
Nuveen North Carolina Premium Income Municipal Fund (NNC)  
Nuveen Virginia Premium Income Municipal Fund (NPV)

These Funds feature portfolio management by Nuveen Asset Management, LLC, an affiliate of Nuveen Investments, Inc. Portfolio managers Daniel J. Close, CFA, Thomas C. Spalding, CFA, and Christopher L. Drahn, CFA, discuss economic and municipal market conditions at the national and state levels, key investment strategies and the twelve-month performance of these five Nuveen Funds. Dan has managed the Nuveen Georgia and North Carolina Funds since 2007. Tom assumed portfolio management responsibility for the Maryland and Virginia Funds in 2011 and Chris has managed the Missouri Fund since 2011.

What factors affected the U.S. economy and the national municipal market during the twelve-month reporting period ended May 31, 2014?

During this reporting period, the U.S. economy continued its bumpy advance toward recovery from recession. The Federal Reserve (Fed) maintained efforts to bolster growth and promote progress toward its mandates of maximum employment and price stability by holding the benchmark fed funds rate at the record low level of zero to 0.25% that it established in December 2008. Based on its view that the underlying strength in the broader economy was enough to support ongoing improvement in the labor market, the Fed began to reduce or taper its monthly asset purchases in \$10 billion increments over the course of five consecutive meetings (December 2013 through June 2014). As of July 2014 (subsequent to the close of this reporting period), the Fed's monthly purchases comprise \$15 billion in mortgage-backed securities (versus the original \$40 billion per month) and \$20 billion in longer-term Treasury securities (versus \$45 billion). Following its June 2014 meeting (subsequent to the close of this reporting period), the Fed reiterated that it would continue to look at a wide range of factors, including labor market conditions, indicators of inflationary pressures and readings on financial developments, in determining future actions, saying that it would likely maintain the current target range for the fed funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Fed's 2% longer-run goal.

In the first quarter of 2014, the U.S. economy, as measured by the U.S. gross domestic product (GDP), contracted at an annualized rate of 2.9%, the economy's weakest quarter since the recession officially ended in June 2009. The decline during this period was attributed in part to the severe weather of the past winter, which deterred consumer spending and disrupted construction, production and shipping. The Consumer Price Index (CPI) rose 2.1% year-over-year as of May 2014, the largest twelve-month increase since October 2012, while the core CPI (which excludes food and energy) increased 2.0% during the same period, in line with the Fed's unofficial longer-term objective of 2.0% for this inflation measure. As of May 2014, the national unemployment rate was 6.3%, the lowest reading since September 2008, down from the 7.5% reported in May 2013, but still higher than levels that would

Certain statements in this report are forward-looking statements. Discussions of specific investments are for illustration only and are not intended as recommendations of individual investments. The forward-looking statements and other views expressed herein are those of the portfolio managers as of the date of this report. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and the views expressed herein are subject to change at any time, due to numerous market and other factors. The Funds disclaim any obligation to update publicly or revise any forward-looking statements or views expressed herein.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's (S&P), Moody's Investors Service, Inc. (Moody's) or Fitch, Inc. (Fitch). Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below investment grade ratings. Certain bonds backed by U.S. government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

Bond insurance guarantees only the payment of principal and interest on the bond when due, and not the value of the bonds themselves, which will fluctuate with the bond market and the financial success of the issuer and the insurer. Insurance relates specifically to the bonds in the portfolio and not to the share prices of a Fund. No representation is made as to the insurers' ability to meet their commitments.

Portfolio Managers' Comments (continued)

provide consistent support for optimal GDP growth. The 113,000 net new jobs added in May 2014 meant that the economy finally had regained all of the 8.7 million jobs lost during the recent recession. The housing market continued to post gains, as the average home price in the S&P/Case-Shiller Index of 20 major metropolitan areas rose 10.8% for the twelve months ended April 2014 (most recent data available at the time this report was prepared). This brought the average U.S. home price back to summer 2004 levels, although prices continued to be down 18%–19% from their mid-2006 peak.

As this reporting period began, several events touched off increased volatility in the financial markets. First, in May 2013, then-Fed Chairman Ben Bernanke's remarks about tapering the Fed's asset purchase program triggered widespread uncertainty about the next step for the Fed's quantitative easing program and its impact on the markets as well as the overall economy. This uncertainty was compounded by headline credit stories involving Detroit's bankruptcy filing in July 2013, the largest municipal bankruptcy in history and the disappointing news that continued to come out of Puerto Rico, where a struggling economy and years of deficit spending and borrowing led to multiple downgrades on the commonwealth's bonds. Meanwhile, political debate over federal spending continued, as Congress failed to reach an agreement on the federal budget for Fiscal 2014. On October 1, 2013, the start date for Fiscal 2014, the federal government shut down for 16 days until an interim appropriations bill was signed into law. (Consensus on a \$1.1 trillion federal spending bill was ultimately reached in January 2014 and in February 2014, members of Congress agreed to suspend the \$16.7 trillion debt ceiling until March 2015.) In the unsettled environment of the first half of this reporting period, the Treasury market traded off, the municipal market followed suit and spreads widened as investor concern grew, which prompted increased selling by bondholders across the fixed income markets.

During the second half of this reporting period, municipal bonds generally rebounded, as the Fed remained accommodative, the Treasury market rallied and municipal credit fundamentals continued to improve. Higher yields and the prospect of higher taxes sparked increased demand and improved flows into municipal bond funds, while supply continued to drop. This supply/demand dynamic served as a key driver of municipal market performance. While yields retraced 2013 gains during the first five months of 2014, municipal bonds generally produced positive total returns for the reporting period as a whole. Fundamentals on municipal bonds remained strong, as state governments overall made good progress in dealing with budget issues. Due to strong growth in personal tax and sales tax collections, year-over-year totals for state tax revenues have increased for 16 consecutive quarters, while on the expense side, many states made headway in cutting and controlling costs, with more than 40 states implementing some type of pension reform. The current level of municipal issuance reflects the more conservative approach to state budgeting. For the twelve months ended May 31, 2014, municipal bond issuance nationwide totaled \$296.0 billion, down 21% from the issuance for the twelve-month period ended May 31, 2013.

What were the economic and market conditions in Georgia, Maryland, Missouri, North Carolina and Virginia during the twelve-month reporting period ended May 31, 2014?

During this period, Georgia continued its recovery from the recent recession. The state's economy grew 1.8% in 2013, up from 1.5% in 2012 and on par with national growth of 1.8% for 2013. This ranked Georgia 25th among the states in terms of economic expansion for 2013. As of May 2014, unemployment in Georgia was 7.2%, down from 8.4% in May 2013, but still above the national rate of 6.3%. Georgia's economy continued to be well diversified, although geographically concentrated around the Atlanta metropolitan area. Home prices in the Atlanta area, which were hard hit by the housing crisis, were up 13.7% year-over-year as of April 2014 (most recent data available at the time this report was prepared), ahead of the national average of 10.8%, according to the S&P/Case-Shiller Home Price Index. In 2013, Georgia's population grew by only 0.8%, the weakest in almost four decades. For Fiscal 2015, Georgia adopted a \$20.8 billion state budget, which included an estimated revenue increase of 3% over the amended Fiscal 2014 budget. The Fiscal 2015 budget also provided approximately \$514 million in additional funds for K-12 education, the largest annual increase in K-12 funding in seven years. As of May 2014, Georgia's general obligation



debt continued to be rated Aaa, AAA, AAA with stable outlooks from Moody's, S&P and Fitch, respectively. For the twelve months ended May 31, 2014, municipal issuance in Georgia totaled \$5.1 billion, a decrease of 3.3% from the twelve months ended May 31, 2013.

In Maryland, the state's credit profile remained relatively strong, due to sound fiscal management and a diverse economy. In 2013, Maryland's economic growth was flat, following expansion that averaged 1.9% in 2010-2012. While the state's economic recovery has been somewhat hampered by federal budget cuts, private sector employment has shown recent signs of expansion. Growth in the health care and professional services sectors buoyed the state's job market and lowered statewide unemployment

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to 5.6% as of May 2014, down from 6.7% in May 2013. However, employment in the manufacturing and financial services sectors continued to decline and Maryland's proximity to Washington DC means a greater dependency on federal employment than in most states, leaving it vulnerable to federal cost-cutting. The state's largest employer was Fort George G. Meade, with more than 56,000 workers. Maryland has one of the nation's best educated workforces, which has facilitated the development of advanced technology and the growth of public and private research facilities. Combined with the influence of the government sector and the presence of 56 universities, this has made Maryland a center for national security and medical and biomedical research. Maryland's Fiscal 2015 budget estimated a 5% increase in revenues and expenditures and maintenance of the state's rainy day fund at \$800 million. As of May 2014, Moody's, S&P and Fitch rated Maryland general obligation debt at Aaa, AAA, AAA, respectively, with stable outlooks. During the twelve months ended May 31, 2014, municipal issuance in the state totaled \$5.2 billion, down 29% from the twelve-month period ended May 31, 2013.

Missouri's economic recovery continued to lag that at the national level. For 2013, national economic growth of 1.8% outpaced Missouri's expansion rate of 0.8%, which ranked Missouri 45th among the states. Continued job losses in the government and information technology sectors were offset by employment growth in construction, leisure and hospitality, financial activities and education and health services. As of May 2014, Missouri's unemployment rate of 6.6% remained higher than the national rate of 6.3%, but represented a slight improvement over the state's reading of 6.7% in May 2013. Missouri's overexposure to traditional defense-related manufacturing jobs caused a drag on its recovery, but efforts to transition part of the state economy away from these jobs to health care and financial services could position Missouri for future growth. The state's plan to expand exports suffered a setback in 2013, with exports falling 8.5% from 2012, as increases in exports to Mexico failed to offset large decreases in exports to Canada and China. For Fiscal 2015, the proposed \$26.4 billion Missouri state budget, which was introduced in January 2014, focused on increased funding for K-12 education, higher education and the renovation of Fulton State Mental Hospital. In August 2014, residents will vote on a \$0.0075 ten-year sales tax increase that would provide an estimated \$500 million in annual transportation revenues. Although previous budgets have reduced state payrolls, the Fiscal 2015 budget called for increased spending on employee resources. As of May 2014, Moody's, S&P and Fitch rated Missouri general obligation debt at Aaa, AAA, AAA, respectively, with stable outlooks. For the twelve months ended May 31, 2014, municipal issuance in Missouri totaled \$6.5 billion, representing a 3.5% increase from the twelve months ended May 31, 2013.

North Carolina continued the trend line of growth that started at the end of 2011. For 2013, the gross state product for North Carolina grew 2.3%, following an increase of 2.4% in 2012. This outpaced national growth of 1.8% in 2013 and ranked North Carolina 17th among the states for the year. As of May 2014, the state's unemployment rate of 6.4% was its lowest since July 2008, down from 8.3% twelve months earlier. North Carolina has worked to transition its economy away from old-line manufacturing into sectors oriented toward research, technology and services and the combination of experience and a focus on the future resulted in Raleigh's being selected as the site for a new federally subsidized institute for technology-based manufacturing. Once a leader in textiles, furniture and tobacco, the state's manufacturing sector was not expected to resume its role as a major driver in the North Carolina economy, although manufacturing continued to represent 11% of the state's jobs. The federal government remained the largest employer in the state due to the large military installments, including Fort Bragg and Camp Lejeune, which are the two largest employers in the state with more than 110,000 workers. According to the S&P/Case-Shiller Index of 20 major metropolitan areas, housing prices in Charlotte rose 4.4% during the twelve months ended April 2014 (most recent data available at the time this report was prepared), compared with a 10.8% price increase nationally. This put Charlotte home prices less than 10% from their 2006 peak. North Carolina closed Fiscal 2013 with a budget surplus of more than \$440 million. Such surpluses are less likely going forward, as the state reduced personal income tax rates from a three-tiered system topping out at 7.5% to a flat 5.8% in 2014 and 5.75% in 2015, while also cutting the corporate income tax from 6.9% to 6% in 2014 and 5% in 2015. While the state eliminated sales tax exemptions in order to boost those revenues, the net result is expected to be a reduction in revenues. As of May 2014, North Carolina is one of only eight states to carry a rating of AAA by all three major rating agencies. During the twelve months ended May 31, 2014, municipal issuance in North Carolina totaled \$2.6 billion, a decrease of 70% from the twelve months

ended May 31, 2013.

Economic recovery in Virginia continued at a steady, though somewhat slower pace than in its peers. In 2013, Virginia's economic growth was relatively flat, following expansion that averaged 1.6% in 2010-2012. However, economic indicators reflected an economy that was relatively healthy and improving. As of May 2014, unemployment in the commonwealth fell to 5.1%, down from

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Portfolio Managers' Comments (continued)

5.6% in May 2013 and below the national average of 6.3%. Job growth in Virginia was led by the education and health services, financial services and construction sectors. The commonwealth is a center for research and development facilities, with Richmond, Charlottesville and Northern Virginia forming a research triangle. In recent months, home prices in the region have risen, according to the S&P/Case-Shiller Index of 20 major metropolitan areas, with the Washington DC area posting a 7.0% gain for the twelve months ended April 2014 (most recent data available at the time this report was prepared). This compared with a 10.8% rise in home prices nationally. Virginia is approaching the end of the second year of its \$85 billion biennium budget and progress on the budget for Fiscal 2015 is at a standstill over Medicaid expansion. Many of Virginia's local governments and school districts base their budgets on the commonwealth's and a delay in budget approval at the state level could result in problems for local municipalities. In 2012, Virginia passed a wide-ranging pension reform measure that required full funding of the Virginia retirement system within eight years, altered benefits and contribution rates and established a hybrid defined benefit/defined contribution plan for new employees. As of May 2014, Moody's, S&P and Fitch rated Virginia general obligation debt at Aaa/AAA/AAA with stable outlooks. During the twelve months ended May 31, 2014, issuance in Virginia totaled \$5.6 billion, a decrease of 42% from the previous twelve months.

What key strategies were used to manage these Funds during the twelve-month reporting period ended May 31, 2014?

As previously discussed, during the first part of this reporting period, uncertainty about the future of the Fed's quantitative easing program and headline credit stories involving Detroit and Puerto Rico triggered selling by bondholders across the fixed income markets, resulting in a volatile municipal market environment. The second part of the reporting period brought greater stability and a municipal market rally driven by stronger demand and tight supply. We continued to take a bottom-up approach to discovering sectors that appeared undervalued as well as individual credits that had the potential to perform well over the long term and helped keep the Funds fully invested.

Despite the challenging environment created by market volatility and the general decrease in new issuance, especially in North Carolina, Virginia and Maryland, we continued to find opportunities to purchase bonds in both the primary and secondary markets that helped us achieve our goals for the Funds. Given our view that there had been no fundamental change in municipal market credit, we were active buyers, taking advantage of higher coupons and attractive prices resulting from the pattern of outflows, predominately from high yield funds, during the first part of the reporting period. Overall, our emphasis in these Funds was on adding attractive bonds across the credit quality spectrum that we believed had long-term potential. For the most part, our purchases were made in the intermediate and longer parts of the municipal yield curve, with more emphasis on intermediate maturities in NNC.

During this reporting period, the Funds continued to find value in diversified areas of the marketplace. In NKG, we purchased several state and local general obligation (GO) credits, water and sewer bonds, tax increment financing (TIF) district credits and a gas prepayment issue. When NKG's holdings of bonds issued for Hartsfield-Jackson Atlanta International Airport were called, we reinvested the call proceeds in the airport's new issue. During this reporting period, NMY added to its holdings in health care, single-family housing, GOs and higher education, including The Johns Hopkins University and the University of Maryland. In Missouri, NOM found value in credits issued by the Metropolitan St. Louis Sewer District and the health care and higher education sectors, such as CoxHealth, the University of Central Missouri and the St. Louis College of Pharmacy. Despite the significant drop in North Carolina issuance during this period, we continued to find bonds that helped accomplish our goals for NNC, adding local GOs, water and sewer and airport bonds as well as Catawba electric revenue credits. Good supply of higher education issuance also enabled us to increase NNC's holdings in that sector, as we added bonds issued for East Carolina University, Winston-Salem State University and University of North Carolina at both Charlotte and Raleigh. In Virginia, NPV's purchases during this reporting period focused on tollroads, higher education (Washington and Lee University) and emission control bonds issued for Virginia Electric and Power Company. With the general decline in Virginia issuance, we also added some territorial paper (Virgin Islands) to help keep our portfolio fully invested.

During this reporting period, S&P upgraded its credit rating on National Public Finance Guarantee Corp. (NPF), the insurance subsidiary of MBIA, to a AA-rating from A-rating, citing NPF's strong operating performance and competitive position in the financial guarantee market. As a result, the ratings on the Funds' holdings of bonds backed by insurance from NPF were similarly upgraded to AA-rated as of mid-March 2014. This action produced an increase in the percentage of our portfolios held in the AA-rated credit

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quality category (and a corresponding decrease in the A-rated category), improving the overall credit quality of the Funds. During this reporting period, S&P also upgraded its rating on Assured Guaranty Municipal (AGM) as well as AGM's municipal-only insurer Municipal Assurance Corp. to AA from AA-.

Cash for new purchases was generated primarily by proceeds from called and matured bonds, which we worked to redeploy to keep the Funds fully invested and support their income streams. We also sold selected holdings to generate additional cash for purchases, including the sale of Virgin Islands electric system revenue bonds in NKG and pre-refunded bonds with short maturities in NNC. In addition, NOM took advantage of good demand for Missouri paper to sell some discount coupon bonds, which had the added benefit of generating tax loss carryforwards that can be used to offset future capital gains. NOM also reviewed its holdings to identify bonds that could qualify as potential sales candidates as better opportunities arose. As a result of this review, we sold our holdings of a Missouri appropriations bond at strong prices. All five Funds were also active sellers of Puerto Rico paper. This activity is further discussed in our comments on Puerto Rico at the end of this Portfolio Managers' Comments section.

As of May 31, 2014, all these Funds continued to use inverse floating rate securities. We employ inverse floaters for a variety of reasons, including duration management, income enhancement and total return enhancement. For duration and cash management reasons, NNC found it advantageous to terminate several of its inverse floating rate trusts, using cash on hand in the portfolio to place the bonds involved back on the Fund's balance sheet.

How did the Funds perform during the twelve-month reporting period ended May 31, 2014?

The tables in each Fund's Performance Overview and Holding Summaries section of this report provide the Funds' total returns for the one-year, five-year and ten-year periods ended May 31, 2014. Each Fund's total returns at net asset value (NAV) are compared with the performance of corresponding market indexes and a Lipper classification average.

For the twelve months ended May 31, 2014, the total return at common share NAV for NNC exceeded the return for the S&P Municipal Bond North Carolina Index as well as the S&P Municipal Bond Index, while the other four Funds underperformed their respective state's S&P Municipal Bond Index and the S&P Municipal Bond Index. For the same period, NNC outperformed the average return for the Lipper Other States Municipal Debt Funds Classification Average, while NKG, NMY, NOM and NPV lagged this Lipper average. Shareholders should note that the performance of the Lipper Other States classification represents the overall average of returns for funds from ten states with a wide variety of municipal market conditions, making direct comparisons less meaningful.

Key management factors that influenced the Funds' returns during this reporting period included duration and yield curve positioning, credit exposure and sector allocation. The underperformance of the Maryland and Virginia markets relative to the national municipal market also had an impact on the returns of NMY and NPV for the reporting period. In addition, the use of regulatory leverage was an important factor affecting the performance of these Funds. Leverage is discussed in more detail later in the Fund Leverage section of this report.

As yields retraced gains made during the first part of this reporting period, municipal bonds with long intermediate and longer maturities generally outperformed those with shorter maturities as a whole. Overall, credits with maturities between seven and twenty years, especially those in the fifteen-year maturity range, outperformed the general municipal market, while bonds at the shortest end of the municipal yield curve produced the weakest results. Because these Funds generally had good weightings in the segments of the municipal curve that performed best and underweights in the underperforming short end of the curve, duration and yield curve positioning was a positive contributor to their performance, especially in NNC.

During this reporting period, lower rated bonds generally outperformed higher quality bonds, as the environment shifted from tradeoff to rally and investors became more willing to accept risk. However, relative performance results among the lower rated categories were somewhat skewed by the underperformance of Puerto Rico bonds, which were

classified in the BBB-rated credit quality category for the majority of this reporting period before their downgrade to below investment grade in February 2014. All of these Funds except NNC were overweighted in BBB-rated bonds, with NPV having the heaviest allocation in this category. The impact of Puerto Rico holdings was offset to varying degrees by the Funds' weightings in the other lower quality positions that performed well.

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## Portfolio Managers' Comments (continued)

Health care and housing generally were the top performers among the municipal market sectors, with the performance of the housing sector boosted by improving property value assessments and the decline in mortgage and tax delinquencies. NMY, NOM, NNC and NPV all benefited from their heavy weightings in health care, including hospitals and continuing care retirement communities (CCRCs). Other revenue sectors that tended to outperform the general municipal market included transportation, industrial development revenue (IDR) bonds, water and sewer and education. NKG's overweighting in IDRs helped somewhat to offset its lower allocation to health care. For the reporting period, general obligation (GO) credits generally performed in line with the market.

In contrast, pre-refunded bonds, which are often backed by U.S. Treasury securities, were among the poorest performing market segments. The underperformance of these bonds relative to the market can be attributed primarily to their shorter effective maturities and higher credit quality. All of these Funds had allocations of pre-refunded bonds, with NMY having the heaviest weighting and NKG the smallest exposure. Bonds in the utilities sector also lagged municipal market performance. These Funds tended to be underweighted in utilities relative to the index, which was generally helpful. Lower rated tobacco credits backed by the 1998 master tobacco settlement agreement also performed poorly. At the beginning of this reporting period, all of these Funds except NOM had allocations of tobacco bonds issued by The Children's Trust Fund (Puerto Rico). In addition, NMY held tobacco credits issued by Guam and the Virgin Islands and NPV had positions in tobacco bonds issued by Guam and the Tobacco Settlement Financing Corporation of Virginia. In late 2013, NKG and NNC closed out their positions in Puerto Rico tobacco bonds.

During this reporting period, developments in Puerto Rico also had an impact on the Funds' holdings and performance. The commonwealth's continued economic weakening, escalating debt service obligations and long-standing inability to deliver a balanced budget have led to multiple downgrades on its debt. In another round of rating reductions in February 2014, Moody's, S&P, and Fitch cut their ratings on Puerto Rico general obligation (GO) debt to below investment grade, at Ba2/BB+/BB, respectively, with negative outlooks. In late June 2014, Puerto Rico approved new legislation creating a judicial framework and formal process that would allow several of the commonwealth's public corporations to restructure their public debt. As of July 2014, the Nuveen complex holds \$80.6 million in bonds backed by public corporations in Puerto Rico that could be restructured under this legislation, representing less than 0.1% of our municipal assets under management. In light of the evolving economic situation in Puerto Rico, Nuveen's credit analysis of Puerto Rico had previously considered the possibility of a default and restructuring of public corporations and we adjusted our portfolios to prepare for such an outcome, although no such default or restructuring has occurred to date. The Nuveen complex's entire exposure to obligations of the government of Puerto Rico and other Puerto Rico issuers amounts to 0.8% of our municipal assets under management. On July 1, 2014, in response to the new legislation, Moody's further dropped its rating on Puerto Rico GO debt by an additional three notches, to B2 from Ba2. To date, S&P and Fitch have not announced any additional rating adjustments.

For the reporting period ended May 31, 2014, Puerto Rico paper underperformed the municipal market as a whole. During this reporting period, each of these Funds had exposure to Puerto Rico bonds. The effect on performance from these holdings differed from Fund to Fund in line with the type and amount of its position, but on the whole, our Puerto Rico holdings were a major detractor from performance during this period. These territorial bonds were originally added to the Funds in order to keep assets fully invested and working for the Funds as well as to enhance diversity, duration and credit in states such as Maryland and Virginia. We found the Puerto Rico credits attractive because they offer higher yields, added diversification and triple exemption (i.e., exemption from most federal, state and local taxes). During this reporting period, the Funds took advantage of opportunities to reduce or even close out their positions in Puerto Rico paper. In addition to the sales of Puerto Rico tobacco bonds mentioned above, NKG and NNC, which began the period with exposures of 3.8% and 2.2%, respectively, sold their remaining holdings of Puerto Rico bonds, leaving the Funds with no Puerto Rico holdings at the end of the reporting period. NOM also reduced its exposure to Puerto Rico from 7.9% to 3.1% during the reporting period. NMY and NPV trimmed their positions in Puerto Rico bonds from 17.2% to 10.0% in NMY and from 15.4% to 7.8% in NPV. In addition, we should note that



NMY's holding of bonds issued by Puerto Rico Ports Authority for American Airlines made a positive contribution to its performance during this reporting period, as the Fund's position in these bonds was converted into equity as part of the merger with US Airways. Over time, we expect to reinvest the proceeds from these shares into municipal bonds.

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## Fund Leverage

## IMPACT OF THE FUNDS' LEVERAGE STRATEGIES ON PERFORMANCE

One important factor impacting the returns of the Funds relative to their comparative benchmarks was the Funds' use of leverage through their issuance of preferred shares and/or investments in inverse floating rate securities, which represent leveraged investments in underlying bonds. The Funds use leverage because our research has shown that, over time, leveraging provides opportunities for additional income, particularly in the recent market environment where short-term market rates are at or near historical lows, meaning that the short-term rates the Fund has been paying on its leveraging instruments have been much lower than the interest the Fund has been earning on its portfolio of long-term bonds that it has bought with the proceeds of that leverage. However, use of leverage also can expose the Fund to additional price volatility. When a Fund uses leverage, the Fund will experience a greater increase in its net asset value if the municipal bonds acquired through the use of leverage increase in value, but it will also experience a correspondingly larger decline in its net asset value if the bonds acquired through leverage decline in value, which will make the Fund's net asset value more volatile, and its total return performance more variable over time. In addition, income in levered funds will typically decrease in comparison to unlevered funds when short-term interest rates increase and increase when short-term interest rates decrease. Leverage detracted from the performance of NKG, NMY and NPV during the period after accounting for the cost of leverage used. Leverage had a positive impact on performance for NOM, and a negligible impact on NNC during the period.

As of May 31, 2014, the Funds' percentages of effective and regulatory leverage are as shown in the accompanying table.

	NKG	NMY	NOM	NNC	NPV
Effective Leverage*	36.25%	34.86%	37.81%	33.65%	37.74%
Regulatory Leverage*	33.71%	32.11%	35.09%	33.65%	33.03%

\* Effective Leverage is a Fund's effective economic leverage, and includes both regulatory leverage and the leverage effects of certain derivative and other investments in a Fund's portfolio that increase the Fund's investment exposure. Currently, the leverage effects of Tender Option Bond (TOB) inverse floater holdings are included in effective leverage values, in addition to any regulatory leverage. Regulatory leverage consists of preferred shares issued or borrowings of a Fund. Both of these are part of a Fund's capital structure. Regulatory leverage is subject to asset coverage limits set forth in the Investment Company Act of 1940.

Fund Leverage (continued)

THE FUNDS' REGULATORY LEVERAGE

As of May 31, 2014, the Funds have issued and outstanding MuniFund Term Preferred (MTP) Shares, Variable Rate MuniFund Term Preferred (VMTP) Shares and Variable Rate Demand Preferred (VRDP) Shares as shown in the accompanying table.

Series	MTP Shares			NYSE/ NYSE MKT Ticker	VMTP Shares		VRDP Shares		Total
	Shares Issued at Liquidation Value	Annual Interest Rate			Shares Issued at Liquidation Value	Series	Shares Issued at Liquidation Value	Series	
NKG	—	—	—	—					