NUVEEN CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND
Form N-CSR
May 08, 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 811-09161

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

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

Kevin J. McCarthy
Nuveen Investments
333 West Wacker Drive
Chicago, IL 60606
(Name and address of agent for service)

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

Date of fiscal year end: February 28

Date of reporting period: February 28, 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.

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,

Despite headwinds from slow growth, fiscal and political uncertainty in many countries and some fragile economies around the world, domestic and international equity markets increased significantly in 2013. The emerging markets equity sector was an exception. Other sectors, such as real estate, were flat to down a bit and commodities were notably negative in total return performance. The fixed income market also experienced losses in many sectors.

U.S. equities in particular hit numerous all-time highs during the past year, exceeding prior rising market trends. Europe and Asia struggled with political and financial stresses but Europe's improving GDP in the second half provided hope that the region can exit recession. In Japan, the economic policies advocated by Prime Minister Shinzo Abe became a positive influence on the economy as deflationary pressures declined, while the economy in China started to stabilize due to monetary easing and supply side reforms. On the domestic front, the Federal Reserve stimulus continued throughout the year but discussion of reductions in the stimulus program caused historically low rates to rise and added to concern that interest rates could rise quickly in the near future. This provided challenges for fixed income investors.

The Federal Reserve's decision to slow down its bond buying program beginning in December 2013, and the federal budget compromise over government spending into early 2015 were positive signs that the domestic economy is moving forward. We are beginning to experience an economy that can provide encouraging conditions for GDP growth, job growth and low inflation. Additionally, downward trending unemployment and a continuing rebound in the housing market adds to a positive economic scenario going forward.

However, the current year has experienced a tumultuous start. It is in these particularly volatile 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
April 22, 2014

Portfolio Manager's Comments

Nuveen California Premium Income Municipal Fund (NCU)
Nuveen California Dividend Advantage Municipal Fund (NAC)
Nuveen California Dividend Advantage Municipal Fund 2 (NVX)
Nuveen California Dividend Advantage Municipal Fund 3 (NZH)
Nuveen California AMT-Free Municipal Income Fund (NKX)

These Funds feature portfolio management by Nuveen Asset Management, LLC, an affiliate of Nuveen Investments. Portfolio manager Scott R. Romans, PhD, reviews U.S. economic and municipal market conditions at the national and state levels, key investment strategies and the twelve-month performance of these Nuveen California Municipal Funds. Scott has managed the Funds since 2003.

What factors affected the U.S. economy and the national municipal market during the twelve-month reporting period ended February 28, 2014?

During this reporting period, the U.S. economy's progress toward recovery from recession continued, although the economy remained below peak levels. The Federal Reserve (Fed) maintained its 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 three consecutive meetings (December 2013, January 2014 and following the end of this reporting period, March 2014). As of April 2014, the Fed's monthly purchases will comprise $25 billion in mortgage-backed securities (versus the original $40 billion per month) and $30 billion in longer-term Treasury securities (versus $45 billion). Following the March 2014 meeting, the Fed also stated that it would now look at a wide range of factors, including inflation levels and job creation, in determining future actions and 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 fourth quarter of 2013, the U.S. economy, as measured by the U.S. gross domestic product (GDP), grew at an annualized rate of 2.6%, bringing the annual GDP for 2013 to 1.9% and continuing the pattern of positive economic growth for the eleventh consecutive quarter. The Consumer Price Index (CPI) rose 1.1% year-over-year as of February 2014, while the core CPI (which excludes food and energy) increased 1.6% during the same period, staying within the Fed's unofficial objective of 2.0% or lower for

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 manager 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 Manager's Comments (continued)

this inflation measure. As of February 2014, the national unemployment rate was 6.7%, down from the 7.7% reported in February 2013. 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 13.2% for the twelve months ended January 2014 (most recent data available at the time this report was prepared). This brought the average U.S. home price back to mid-2004 levels, although prices continued to be down approximately 20% from their mid-2006 peak.

As this reporting period began, continued political debate over federal spending clouded the outlook for the U.S. economy, as lawmakers failed to reach a resolution on spending cuts intended to address the federal budget deficit. This triggered a program of automatic spending cuts (or sequestration) that impacted federal programs beginning March 1, 2013. Although Congress later passed legislation that established federal funding levels for the remainder of Fiscal 2013, the federal budget for Fiscal 2014 remained under debate well into the new fiscal year. 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, funding the government at sequestration levels through January 15, 2014, and suspending the debt limit until February 2014. Consensus on a $1.1 trillion federal spending bill was finally reached in January 2014, and in February 2014, members of Congress agreed to suspend the $16.7 trillion debt ceiling until March 2015.

In June 2013, then-Fed Chairman Ben Bernanke's remarks about potentially tapering the Fed's asset purchase program touched off widespread uncertainty about the next step for the Fed's quantitative easing program and its impact on the economy and financial markets. This led to increased market volatility, which 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 resulted in multiple downgrades on the commonwealth's bonds. In this unsettled environment, the Treasury market traded off, the municipal market followed suit and spreads widened as investor concern grew, prompting increased selling by bondholders across the fixed income markets. During the second half of this reporting period, municipal bonds generally rallied, as higher yields and the prospect of higher taxes sparked increased demand and improved flows into municipal bond funds, while supply continued to drop. However, for the reporting period as a whole, municipal bond prices generally declined, especially at the longer end of the maturity spectrum. At the same time, fundamentals on municipal bonds remained strong, as state governments made good progress in dealing with budget issues. Due to strong growth in personal tax collections, year-over-year totals for state tax revenues have increased for 15 consecutive quarters, while on the expense side, the 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 as well as a decrease in refunding activity as municipal market yields rose. Over the twelve months ended February 28, 2014, municipal bond issuance nationwide totaled $315.9 billion, a decrease of 17% from the issuance for the twelve-month period ended February 28, 2013.

How were the economic and market environments in California during the twelve-month reporting period ended February 28, 2014?

California's economy continued to strengthen during this reporting period, with employment growth driven by hiring in technology, international trade and tourism and supplemented by improved residential construction and real estate conditions. Unemployment rates in the state continued to be above national levels, resulting in slow income and wage growth and negatively impacting broader growth through consumption and investment. Although California ranked fourth in the nation in terms of unemployment in February 2014 (behind Rhode Island, Illinois and Nevada), the state's jobless number had improved to 8.0%, down from 9.4% in February 2013, its lowest level since September 2008. This compared with the national unemployment rate of 6.7% in February 2014. According to the S&P/Case-Shiller Index, home prices in San Francisco, San Diego and Los Angeles rose 23.1%, 19.4% and 18.9%, respectively, over the twelve-month reporting period ended January 2014 (most recent data available at the time this report was prepared). These increases far outpaced the average rise of 13.2% nationally for the same period. On the fiscal front, the state's

$97.1 billion Fiscal 2014 general fund budget, which required no major expenditure cuts or revenue-raising measures, provided for building a $1.1 billion reserve, continued to pay down inter-year deferrals and introduced a new funding formula for schools. Strong revenue growth resulting from a recovering economy and the passage of Proposition 30 in November 2012 (which temporarily increased state sales and personal income taxes) have aided in California’s fiscal recovery. For Fiscal 2014-2015, the proposed $106.7 billion general fund budget calls for adding to reserves, continuing to pay down education funding deferrals and budgetary obligations, building a strong rainy day fund and introducing a five-year plan for infrastructure improvements. In January 2014, S&P affirmed its A rating on California general obligation (GO) debt and revised the state outlook to positive from stable, while Moody's and Fitch maintained their ratings of A1 and A, respectively, with stable outlooks as of February 2014. For the twelve months ended February 28, 2014, municipal issuance in California totaled $45.6 billion, an increase of 3.7% over the previous twelve months. California was the largest state issuer in the nation, representing approximately 14.4% of total issuance nationwide for the reporting period.

What key strategies were used to manage these California Funds during the twelve-month reporting period ended February 28, 2014?

As previously discussed, during the first part of this reporting period, debate over federal spending, uncertainty about the Fed's quantitative easing program and headline credit stories involving Detroit and Puerto Rico led to an unsettled environment and increased selling by bondholders across the fixed income markets. Although the second half of the period brought stabilization and a municipal market rally driven by stronger demand and tight supply, municipal bond prices nationwide generally declined as a whole, while interest rates rose. At the same time, California municipal paper performed relatively well, due in part to increased demand triggered by recent changes in the state tax code as well as improving economic conditions in the state. During this time, 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 help us keep our Funds fully invested.

During this reporting period, we primarily focused on strategies intended to enhance the Funds' positioning and the structure of their holdings and increase income distribution. The first of these strategies involved bond swaps. Many of the bonds we added to our portfolios in the previous period were purchased at significant premiums. Because premiums must be amortized, this cuts into the amount of income available for distribution from the coupon. By executing a bond swap in a rising interest rate environment, that amortization expense is basically converted into a loss, so that more of the income from the coupon can be distributed to shareholders. Most of the bonds we swapped offered similar risk characteristics and often involved the same credit, but with different maturity dates. An additional benefit of this strategy was the generation of tax loss carry-forwards that can be used to offset future capital gains. A second strategy involved an approach known as "couponing up." Couponing up is the process of working to improve the book yields on Fund holdings, which enables us to maintain and potentially improve the dividend stream that is passed on to shareholders. For example, we sold some of the Funds' redevelopment agency holdings with 5% coupons in the 20-year maturity range at attractive prices into strong retail demand. We then used the proceeds from these sales to purchase more recent redevelopment issuance from 2010-2011 with higher coupons (e.g., 5.75%). These bonds ultimately provide a more defensive structure and may enable us to increase income distributions.

We also took advantage of opportunities to swap tobacco bonds. Bonds from certain tobacco issuers tend to be more liquid because they were part of a larger issuance. Because of this liquidity, these bonds are preferred by non-traditional municipal investors such as hedge funds. By swapping the Funds' more liquid tobacco holdings for ones with less liquidity, we were able to pick up bonds with better credit quality and structure and higher yields, while also harvesting tax losses. Based on the credit situation in Puerto Rico, these Funds also swapped holdings of uninsured COFINA subordinate sales tax revenue bonds for insured COFINA senior sales tax bonds. We believe the senior COFINAs are a stronger credit, while the insurance provides additional protection. (Further information on developments in Puerto Rico and our Puerto Rico holdings can be found later in this report.)

More broadly during this reporting period, we focused on adding lower rated credits with higher coupons, taking advantage of opportunities to purchase these bonds at attractive prices when high yield funds were selling off during the market downturn. This also provided opportunities to extend the Funds' call protection, which sets a certain period of time during which the bond cannot be redeemed by the issues. In addition, market action during this reporting period acted to extend the Funds' durations naturally. We addressed this situation by selling some of our longer duration holdings, (e.g., zero coupon bonds,) in order to reduce the Funds' durations and maintain them in line with their targeted objectives. Activity was driven primarily by the execution of these strategies and the reinvestment of proceeds from called and matured bonds. This reinvestment activity was aimed at keeping the Funds fully invested and supporting their income streams.

Portfolio Manager's Comments (continued)

As of February 28, 2014, all five of 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.

How did the Funds perform during the twelve-month reporting period ended February 28, 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 February 28, 2014. Each Fund's returns on common share net asset value (NAV) are compared with the performance of corresponding market indexes and Lipper classification average.

For the twelve months ended February 28, 2014, the total returns on common share NAV for these five Funds underperformed the return for the S&P Municipal Bond California Index. NCU performed in line with the national S&P Municipal Bond Index, while the other four Funds lagged the national return. For the same period, NCU outperformed the average return for the Lipper California Municipal Debt Funds Classification Average, NKX performed in line with this Lipper average and NAC, NVX and NZH lagged the Lipper classification average.

Key management factors that influenced the Funds' returns during this reporting period included duration and yield curve positioning, credit exposure and sector allocation. In addition, the use of leverage was an important factor in performance. Leverage is discussed in more detail later in this report.

As interest rates rose and the yield curve steepened, municipal bonds with shorter maturities generally outperformed those with longer maturities. Overall, credits with short-intermediate maturities (between two and six years) posted the best returns during this reporting period, while bonds at the longest end of the municipal yield curve produced the weakest results. In general, the Funds' durations and yield curve positioning were key detractors from their performance. Consistent with our long-term strategy, all of these Funds tended to be overweighted in the longer parts of the yield curve that underperformed and underweighted in the outperforming shorter end of the curve. This was especially true in NVX, which had the longest duration among these Funds, while NCU had the shortest duration. In general, the relative differences among the Funds' returns can be explained by the degree to which each Fund's duration was longer than that of the market.

Credit exposure was another factor in the Funds' performance during these twelve months. In general, non-rated credits and BBB-rated bonds were the top performers in the California municipal market, as the environment shifted from tradeoff to rally and investors became more willing to accept risk. Bonds rated A performed in line with the California market average, while AAA- and AA-rated bonds slightly underperformed the market. Both the BB- and B-rated categories underperformed, dramatically so in the case of B-rated bonds due to the performance of tobacco bonds. Overall, these Funds tended to be overweighted in BBB-rated bonds and underweighted in higher quality credits relative to the market. This positive impact on credit exposure helped to offset some of the negative impact from their duration positioning.

Among the municipal market sectors, housing bonds generally were the top performers, helped by improving property value assessments and a decline in mortgage and tax delinquencies. Tied to this was the performance of land-secured deals such as tax increment financing (TIF) district credits, which benefited from the improving housing market and overall economy. Pre-refunded bonds, which are often backed by U.S. Treasury securities, also were among the best performing market. The outperformance of these bonds relative to the market can be attributed primarily to their shorter effective maturities. All of these Funds had holdings of pre-refunded bonds, with NKX having the heaviest allocations of these bonds and NZH the smallest. Other holdings that generally made positive contributions to the Funds' returns included toll roads and GO credits, which typically outperformed the general municipal market, while industrial development revenue (IDR), education and water and sewer bonds generally performed in line with the market.

In contrast, revenue bonds as a whole underperformed the municipal market. Among the revenue sectors that generally lagged municipal market performance by the widest margins were utilities and transportation. The health care sector (including hospitals) also produced negative results in the California market. Tobacco credits backed by the 1998 master tobacco settlement agreement also were among the poorest performing market sectors, due in part to their longer effective durations. All of these Funds had allocations of tobacco bonds issued by various California agencies, with NAC and NKX having heavier weightings than NCU, NVX and NZH.

Shareholders also should be aware of ongoing developments in Puerto Rico that had an impact on the Funds' holdings and performance, most recently the downgrade of Puerto Rico GOs and related debt to below investment grade. Puerto Rico's continued economic weakening, escalating debt service obligations and longstanding inability to deliver a balanced budget led to multiple downgrades on its debt over the past twelve months. Following the most recent round of rating reductions in early February 2014, the three major rating agencies, Moody's, S&P and Fitch Ratings, rated Puerto Rico GO debt at Ba2/BB+/BB, respectively, with negative outlooks. Ratings on sales tax bonds issued by COFINA also were lowered during the past twelve months, with senior sales tax revenue bonds rated Baa1/AA-/AA- and subordinate sales tax revenue bonds rated Baa2/A+/A+ by Moody's, S&P and Fitch, respectively, as of February 2014. The COFINA bonds were able to maintain a higher credit rating than the GOs because, unlike the revenue streams supporting some Puerto Rican issues, the sales taxes supporting the COFINA bonds cannot be diverted and used to support Puerto Rico's GO bonds.

For the reporting period ended February 28, 2014, Puerto Rico paper underperformed the municipal market as a whole. During this reporting period, NAC, NVX, NZH and NKX had limited exposure to Puerto Rico bonds, while NCU held no Puerto Rico paper. 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, the impact was negligible. Puerto Rico bonds were originally added to our portfolios at times when in-state paper was scarce in order to keep the assets fully invested and working for the Funds. The Puerto Rico credits offered higher yields, added diversification and triple exemption (i.e., exemption from federal, state and local taxes). During this reporting period, these Funds took advantage of opportunities to trim and swap positions in Puerto Rico paper so that by period end, the Funds' exposure to Puerto Rico was very low, and the holdings were very high quality. NAC, NVX, NZH and NKX began this reporting period with allocations of 0.35%, 2.87%, 2.54% and 0.58%, respectively, to Puerto Rico debt and all held uninsured COFINA subordinate sales tax revenue bonds at the beginning of the reporting period, which we subsequently swapped for insured COFINA senior sales tax revenue bonds. We believe the senior COFINAs are a stronger credit, while the insurance provides additional protection. NVX, which also had positions in insured Puerto Rico GOs and escrowed appropriation bonds, trimmed its exposure to Puerto Rico to 1.71% at period end. In addition, NZH sold its holdings of insured Puerto Rico highway bonds, reducing its allocation to 0.56%. NAC and NKX cut their Puerto Rico exposure to 0.06% and 0.18%, respectively, by period end. A look at Puerto Rico's tax-supported debt (GO, COFINA and guaranteed debt) as a whole makes it clear that the commonwealth's debt was structured based on an assumption of a steadily growing economy. Unfortunately for Puerto Rico, its economy continues to struggle with high unemployment and population loss, among other problems. As a result, we believe that Puerto Rico bonds that lack a lien on specific revenues (e.g., COFINA sales tax bonds) or that are not backed by healthy bond insurers currently carry significant economic, fiscal and political risks.

Given the Puerto Rico situation and Detroit's bankruptcy filing in July 2013, we should note that we continue to closely watch credit conditions in the California market. In August 2013, Fitch upgraded the rating on California state GO debt to A from A-, while Moody's and S&P maintained their ratings of A1 and A, respectively. In January 2014, S&P revised its outlook for California to positive from stable. We also continue to monitor the status of local municipalities such as San Bernardino and Stockton, which filed for bankruptcy in 2012 as they became increasingly squeezed by budget problems resulting from rising pension costs. At the end of August 2013, San Bernardino was awarded bankruptcy protection by the court, joining Stockton, which received Chapter 9 protection in April 2013. Pension liabilities, primarily due to the California Public Employees' Retirement System (CalPERS), were at the heart of Stockton's bankruptcy filing. Stockton has since released a draft of a restructuring plan for reducing debt obligations, and most major insurers, acting as the proxy for Stockton bondholders, have approved the plan. San Bernardino, which has unfunded pension liabilities of approximately $143 million as well as $50 million in bonds it issued in 2005 to help cover pension obligations, is further behind in the bankruptcy process, as a recent recall election of local officials delayed progress. Both NZH and NKX have exposure to Stockton and San Bernardino, all of which is insured.

Portfolio Manager's Comments (continued)

APPROVED FUND REORGANIZATIONS

On October 13, 2013, the Nuveen Funds Board of Directors/Trustees approved a series of reorganizations for certain of the California Funds included in this report. The reorganizations are subject to customary conditions, including shareholder approval at annual shareholder meetings during 2014. Each reorganization is intended to create one, larger-state fund, which would potentially offer shareholders the following benefits:

- Lower fund expense ratios (excluding the effects of leverage), as fixed costs are spread over a larger asset base;
- Enhanced secondary market trading, as larger funds potentially make it easier for investors to buy and sell fund shares;
- Lower per share trading costs through reduced bid/ask spreads due to a larger common share float; and
- Increased fund flexibility in managing the structure and cost of leverage over time.

The approved reorganizations are as follows:

Acquired Funds	Acquiring Funds
Nuveen California Performance Plus Municipal Fund, Inc. (NCP)	Nuveen California Dividend Advantage Municipal Fund (NAC)
Nuveen California Municipal Market Opportunity Fund, Inc. (NCO)	
Nuveen California Investment Quality Municipal Fund, Inc. (NQC)	
Nuveen California Select Quality Municipal Fund, Inc. (NVC)	
Nuveen California Quality Income Municipal Fund, Inc. (NUC)	
Nuveen California Premium Income Municipal Fund (NCU)	Nuveen California AMT-Free Municipal Income Fund (NKX)

Upon the closing of a reorganization, an Acquired Fund transfers 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 the liabilities of the Acquired Fund. Each Acquired Fund is then liquidated, dissolved and terminated in accordance with its Declaration of Trust. Shareholders of each Acquired Fund become shareholders of the Acquiring Fund. Holders of common shares receive newly issued common shares of their Acquiring Fund, the aggregate net asset value of which equal 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 shares to which shareholders are entitled). Fractional shares are sold on the open market and shareholders received cash in lieu of such fractional shares. Holders of preferred shares of each Acquired Fund receive on a one-for-one basis newly issued preferred shares of their Acquiring Fund, in exchange for preferred shares of the Acquired Fund held immediately prior to the reorganizations.

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 had a negative impact on the performance of the Funds over this reporting period.

As of February 28, 2014, the Funds' percentages of effective and regulatory leverage are as shown in the accompanying table.

	NCU	NAC	NVX	NZH	NKX
Effective Leverage*	33.50%	38.21%	33.02%	39.70%	36.94%
Regulatory Leverage*	29.08%	28.28%	30.90%	32.93%	32.46%

* 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 February 28, 2014, the Funds have issued and outstanding MuniFund Term Preferred (MTP) Shares or Variable Rate Demand Preferred (VRDP) Shares as shown in the accompanying table.

	MTP Shares					VRDP Shares		
	Series		Shares Issued at Liquidation Value	Annual Interest Rate	NYSE / NYSE MKT Ticker	Series		Shares Issued at Liquidation Value
NCU	2015	$	35,250,000	2.00%	NCU PRC	—	$	—
NAC	—	$	—	—	—	1	$	136,200,000
NVX	—	$	—	—	—	1	$	98,000,000*
NZH	—	$	—	—	—	1	$	160,000,000*
NKX	—	$	—	—	—	2	$	35,500,000
			—	—	—	3		42,700,000
			—	—	—	4		109,000,000
			—	—	—	5		104,400,000
	—	$	—				$	291,600,000

* During the current reporting period, the Fund refinanced its MTP shares with the issuance of VRDP Shares. Refer to Notes to Financial Statements, Note 1—General Information and Significant Accounting Policies for further details on MTP and VRDP Shares.

Common Share Information

COMMON SHARE DIVIDENDS INFORMATION

The following information regarding the Funds' dividends is current as of February 28, 2014. Each Fund's dividend levels may vary over time based on each Fund's investment activity and portfolio investment value changes.

During the current reporting period, each Fund's monthly dividends to common shareholders were as shown in the accompanying table.

	Per Common Share Amounts				
Ex-Dividend Date	NCU	NAC	NVX	NZH	NKX
March 2013	$ 0.0700	$ 0.0740	$ 0.0750	$ 0.0670	$ 0.0700
April	0.0700	0.0740	0.0750	0.0670	0.0700
May	0.0700	0.0740	0.0750	0.0670	0.0700
June	0.0700	0.0740	0.0750	0.0670	0.0700
July	0.0700	0.0740	0.0750	0.0670	0.0700
August	0.0700	0.0740	0.0750	0.0670	0.0700
September	0.0700	0.0740	0.0750	0.0670	0.0700
October	0.0700	0.0740	0.0750	0.0670	0.0700
November	0.0700	0.0740	0.0750	0.0670	0.0700
December	0.0700	0.0740	0.0750	0.0670	0.0700
January	0.0700	0.0740	0.0750	0.0670	0.0700
February 2014	0.0700	0.0740	0.0750	0.0670	0.0700
Long-Term Capital Gain*	$ —	$ —	$ —	$ —	$ 0.0129
Ordinary Income Distribution*	$ 0.0004	$ 0.0014	$ 0.0030	$ 0.0007	$ 0.0028
Market Yield**	6.18%	6.31%	6.55%	6.57%	6.34%
Taxable-Equivalent Yield**	9.46%	9.66%	10.03%	10.06%	9.71%

* Distribution paid in November 2013.

** Market Yield is based on the Fund's current annualized monthly dividend divided by the Fund's current market price as of the end of the reporting period. Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 34.7%. When comparing a Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

All of the Funds in this report seek to pay stable dividends at rates that reflect each Fund's past results and projected future performance. During certain periods, each Fund may pay dividends at a rate that may be more or less than the amount of net investment income actually earned by the Fund during the period. If a Fund has cumulatively earned more than it has paid in dividends, it holds the excess in reserve as undistributed net investment income (UNII) as part of the Fund's NAV. Conversely, if a Fund has cumulatively paid dividends in excess of its earnings, the excess constitutes negative UNII that is likewise reflected in the Fund's NAV. Each Fund will, over time, pay all of its net investment income as dividends to shareholders. As of February 28, 2014, all five Funds had positive UNII balances for both tax purposes and financial reporting purposes.

Common Share Information (continued)

COMMON SHARE REPURCHASES

During November 2013, the Nuveen Funds' Board of Directors/Trustees reauthorized the Funds' open-market share repurchase program, allowing each Fund to repurchase an aggregate of up to approximately 10% of its outstanding common shares.

As of February 28, 2014, and since the inception of the Funds' repurchase programs, the Funds have cumulatively repurchased and retired their outstanding common shares as shown in the accompanying table. Since the inception of the Funds' repurchase programs, NAC and NKX have not repurchased any of their outstanding common shares.

	NCU	NAC	NVX	NZH	NKX
Common Shares Cumulatively Repurchased and Retired	44,500	—	50,700	12,900	—
Common Shares Authorized for Repurchase	575,000	2,350,000	1,475,000	2,415,000	4,185,000

During the current reporting period, the Funds did not repurchase any of their outstanding common shares.

COMMON SHARE EQUITY SHELF PROGRAMS

The following Funds are authorized to issue additional common shares through their ongoing equity shelf programs. Under these programs, each Fund, subject to market conditions, may raise additional capital from time to time in varying amounts and offering methods at a net price at or above the Fund's NAV per common share. Under the equity shelf programs, the Funds are authorized to issue the following number of additional common shares:

	NAC	NKX
Additional Common Shares Authorized	2,300,000	4,100,000

During the current reporting period, NAC and NKX did not sell common shares through their equity shelf programs.

OTHER COMMON SHARE INFORMATION

As of February 28, 2014, and during the current reporting period, the Funds' common share prices were trading at a premium/(discount) to their common share NAVs as shown in the accompanying table.

	NCU	NAC	NVX	NZH	NKX
Common Share NAV	$ 15.00	$ 14.68	$ 14.85	$ 13.50	$ 14.50
Common Share Price	$ 13.60	$ 14.07	$ 13.75	$ 12.24	$ 13.25
Premium/(Discount) to NAV	(9.33)%	(4.16)%	(7.41)%	(9.33)%	(8.62)%
12-Month Average Premium/(Discount) to NAV	(7.40)%	(6.68)%	(7.54)%	(8.63)%	(9.03)%

Risk Considerations

Fund shares are not guaranteed or endorsed by any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation. Past performance is no guarantee of future results. Fund common shares are subject to a variety of risks, including:

Investment, Market and Price Risk. An investment in common shares is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in common shares represents an indirect investment in the municipal securities owned by the Fund, which generally trade in the over-the-counter markets. Shares of closed-end investment companies like these Funds frequently trade at a discount to their net asset value (NAV). Your common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

Leverage Risk. Each Fund's use of leverage creates the possibility of higher volatility for the Fund's per share NAV, market price, distributions and returns. There is no assurance that a Fund's leveraging strategy will be successful. Certain aspects of the recently adopted Volcker Rule may limit the availability of tender option bonds, which are used by the Funds for leveraging and duration management purposes. The effects of this new Rule, expected to take effect in mid-2015, may make it more difficult for a Fund to maintain current or desired levels of leverage and may cause the Fund to incur additional expenses to maintain its leverage.

Tax Risk. The tax treatment of Fund distributions may be affected by new IRS interpretations of the Internal Revenue Code and future changes in tax laws and regulations.

Issuer Credit Risk. This is the risk that a security in a Fund's portfolio will fail to make dividend or interest payments when due.

Interest Rate Risk. Fixed-income securities such as bonds, preferred, convertible and other debt securities will decline in value if market interest rates rise.

Reinvestment Risk. If market interest rates decline, income earned from a Fund's portfolio may be reinvested at rates below that of the original bond that generated the income.

Call Risk or Prepayment Risk. Issuers may exercise their option to prepay principal earlier than scheduled, forcing a Fund to reinvest in lower-yielding securities.

Inverse Floater Risk. The Funds invest in inverse floaters. Due to their leveraged nature, these investments can greatly increase a Fund's exposure to interest rate risk and credit risk. In addition, investments in inverse floaters involve the risk that the Fund could lose more than its original principal investment.

NCU

Nuveen California Premium Income Municipal Fund
Performance Overview and Holding Summaries as of February 28, 2014

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this page.

Average Annual Total Returns as of February 28, 2014

		Average Annual	
	1-Year	5-Year	10-Year
NCU at Common Share NAV	(0.37)%	10.14%	5.80%
NCU at Common Share Price	(8.40)%	13.01%	5.92%
S&P Municipal Bond California Index	0.77%	6.73%	4.77%
S&P Municipal Bond Index	(0.27)%	6.11%	4.45%
Lipper California Municipal Debt Funds Classification Average	(1.09)%	10.39%	5.14%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares. Comparative index and Lipper return information is provided for the Fund's shares at NAV only. Indexes and Lipper averages are not available for direct investment.

This data relates to the securities held in the Fund's portfolio of investments as of the end of the reporting period. It should not be construed as a measure of performance for the Fund itself. Holdings are subject to change.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. 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.

Fund Allocation
(% of net assets)

Municipal Bonds	139.7%
Floating Rate Obligations	(3.9)%
MuniFund Term Preferred Shares	(41.0)%
Other Assets Less Liabilities	5.2%

Portfolio Composition
(% of total investments)

Tax Obligation/Limited	32.9%
Tax Obligation/General	23.6%
Health Care	19.4%
U.S. Guaranteed	5.7%
Transportation	5.3%
Other Industries	13.1%

Credit Quality

(% of total investment exposure)	
AAA/U.S.Guaranteed	9.7%
AA	30.7%
A	36.6%
BBB	15.9%
BB or Lower	2.6%
N/R	4.5%

NAC

Nuveen California Dividend Advantage Municipal Fund
Performance Overview and Holding Summaries as of February 28, 2014

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this page.

Average Annual Total Returns as of February 28, 2014

	Average Annual		
	1-Year	5-Year	10-Year
NAC at Common Share NAV	(1.81)%	10.64%	5.60%
NAC at Common Share Price	(4.95)%	12.54%	6.01%
S&P Municipal Bond California Index	0.77%	6.73%	4.77%
S&P Municipal Bond Index	(0.27)%	6.11%	4.45%
Lipper California Municipal Debt Funds Classification Average	(1.09)%	10.39%	5.14%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares. Comparative index and Lipper return information is provided for the Fund's shares at NAV only. Indexes and Lipper averages are not available for direct investment.

This data relates to the securities held in the Fund's portfolio of investments as of the end of the reporting period. It should not be construed as a measure of performance for the Fund itself. Holdings are subject to change.

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Fund Allocation
(% of net assets)

Municipal Bonds	147.0%
Floating Rate Obligations	(12.6)%
Variable Rate Demand Preferred Shares	(39.4)%
Other Assets Less Liabilities	5.0%

Portfolio Composition
(% of total investments)

Tax Obligation/Limited	26.9%
Health Care	21.4%
Tax Obligation/General	18.0%
Water and Sewer	10.3%
Consumer Staples	5.1%
Education and Civic Organizations	4.3%
Other Industries	14.0%

Credit Quality

(% of total investment exposure)

AAA/U.S.Guaranteed	4.4%
AA	42.7%
A	29.0%
BBB	11.7%
BB or Lower	6.8%
N/R	5.4%

NVX

Nuveen California Dividend Advantage Municipal Fund 2
Performance Overview and Holding Summaries as of February 28, 2014

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this page.

Average Annual Total Returns as of February 28, 2014

	Average Annual		
	1-Year	5-Year	10-Year
NVX at Common Share NAV	(3.42)%	9.55%	5.69%
NVX at Common Share Price	(9.86)%	12.77%	6.04%
S&P Municipal Bond California Index	0.77%	6.73%	4.77%
S&P Municipal Bond Index	(0.27)%	6.11%	4.45%
Lipper California Municipal Debt Funds Classification Average	(1.09)%	10.39%	5.14%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares. Comparative index and Lipper return information is provided for the Fund's shares at NAV only. Indexes and Lipper averages are not available for direct investment.

This data relates to the securities held in the Fund's portfolio of investments as of the end of the reporting period. It should not be construed as a measure of performance for the Fund itself. Holdings are subject to change.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. 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.

Fund Allocation (% of net assets)	
Municipal Bonds	140.7%
Floating Rate Obligations	(0.4)%
Variable Rate Demand Preferred Shares	(44.7)%
Other Assets Less Liabilities	4.4%

Portfolio Composition (% of total investments)	
Tax Obligation/General	20.2%
Tax Obligation/Limited	18.2%
Health Care	15.8%
Utilities	10.1%
Housing/Multifamily	7.5%
Transportation	6.3%
Consumer Staples	5.6%
Water and Sewer	5.6%

Other Industries	10.7%

Credit Quality
(% of total investment exposure)

AAA/U.S.Guaranteed	7.3%
AA	29.6%
A	34.6%
BBB	17.4%
BB or Lower	6.3%
N/R	4.8%

NZH

Nuveen California Dividend Advantage Municipal Fund 3
Performance Overview and Holding Summaries as of February 28, 2014

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this page.

Average Annual Total Returns as of February 28, 2014

		Average Annual	
	1-Year	5-Year	10-Year
NZH at Common Share NAV	(2.50)%	10.11%	5.05%
NZH at Common Share Price	(8.23)%	10.88%	5.33%
S&P Municipal Bond California Index	0.77%	6.73%	4.77%
S&P Municipal Bond Index	(0.27)%	6.11%	4.45%
Lipper California Municipal Debt Funds Classification Average	(1.09)%	10.39%	5.14%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares. Comparative index and Lipper return information is provided for the Fund's shares at NAV only. Indexes and Lipper averages are not available for direct investment.

This data relates to the securities held in the Fund's portfolio of investments as of the end of the reporting period. It should not be construed as a measure of performance for the Fund itself. Holdings are subject to change.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. 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.

Fund Allocation
(% of net assets)

Municipal Bonds	144.2%
Floating Rate Obligations	(0.3)%
Variable Rate Demand Preferred Shares	(49.1)%
Other Assets Less Liabilities	5.2%

Portfolio Composition
(% of total investments)

Tax Obligation/Limited	33.6%