Mutual Funds

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Nuveen Municipal Bond Funds

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Annual Report February 28, 2014

Fund Name	Share Class / Ticker Symbol Class A	Class C	Class C2	Class I
Nuveen California High Yield Municipal Bond Fund	NCHAX	NAWSX	NCHCX	NCHRX
Nuveen California Municipal Bond Fund	NCAAX	NAKFX	NCACX	NCSPX

Portfolio Managers' Comments

Nuveen California High Yield Municipal Bond Fund
Nuveen California Municipal Bond Fund

These Funds feature management by Nuveen Asset Management, LLC, an affiliate of Nuveen Investments. Portfolio managers John V. Miller, CFA, and Scott R. Romans, PhD, examine U.S. economic and municipal market conditions at both the national and state level, key investment strategies and the Funds' performance during the twelve-month reporting period ended February 28, 2014. John has managed the Nuveen California High Yield Municipal Bond Fund since 2006 and Scott has managed the Nuveen California Municipal Bond Fund since 2003.

What factors affected the U.S. economy, the national municipal bond market and the state municipal bond markets during the twelve-month reporting period ending 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 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

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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.

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 sparked increased demand and improving 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 reporting period ended February 28, 2013.

California's economy continues to strengthen with employment growth driven by high technology, international trade and tourism but also supplemented by better residential construction and real estate conditions. Risks to recovery remain with the elevated unemployment rates persisting resulting in slow income and wage growth and negatively impacting broader growth through consumption and investment. As of February 2014, California's unemployment rate was 8.0%, down from 9.4% from February 2013. According to the S&P/Case-Shiller Index, home prices in San Diego, Los Angeles and San Francisco rose 19.4%, 18.9% and 23.1%, respectively, over the twelve months ended January 2014 (most recent data available at the time this report was prepared) compared with an average increase of 13.2% nationally. On the fiscal front, the Fiscal 2014 general fund budget totaled $97.1 billion and did not require major expenditure cuts and revenue raising. The enacted Fiscal 2014 budget builds a $1.1 billion reserve, continues to pay down inter-year deferrals and introduces a new funding formula for schools. Strong revenue growth due to a recovering economy and the passage of Proposition 30 (increases state sales and personal income taxes temporarily) have aided in the State's fiscal recovery. For Fiscal 2014-2015, the proposed General Fund Governor's Budget totals $106.7 billion (up 8.5% over revised 2013-2014 General Fund Budget). The proposed budget is expected to be again balanced, add to reserves, continue to pay down the "Wall of Debt" (education funding deferrals and budgetary obligations), focus on building a strong rainy day fund and introduce a five-year plan for infrastructure improvements. In January 2014, S&P affirmed its A rating on California general obligation (GO) debt but revised the Outlook to Positive from Stable, while Moody's and Fitch maintained their ratings of A1-rated and A-rated, respectively, as of February 2014, maintaining stable outlooks. 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. For this reporting period, California was the largest state issuer in the nation, representing approximately 14.4% of total issuance nationwide.

How did the Funds perform during the twelve-month reporting period ended February 28, 2014?

The tables in the Fund Performance, Expense and Effective Leverage Ratios section of this report provide Class A Share total returns for the Funds for the one-year, five-year, ten-year and since inception periods ended February 28, 2014. Each Fund's Class A Share total returns at net asset value (NAV) are compared with the performance of its benchmark index and corresponding Lipper classification average.

During the twelve-month reporting period, the Nuveen California High Yield Municipal Bond Fund and the Nuveen California Municipal Bond Fund outpaced their respective S&P indexes as well as the Lipper California Municipal Debt Funds Classification Average.

What strategies were used to manage the Funds during the reporting period? How did these strategies influence performance?

All of the Funds continued to employ the same fundamental investment strategies and tactics long relied upon by Nuveen Asset Management. Our municipal bond portfolios are managed with a value oriented approach and close input from Nuveen Asset Management's research team.

Below we highlight the specific factors influencing each Fund's investment strategy, as well as how we managed each portfolio in light of recent market conditions.

Nuveen California High Yield Municipal Bond Fund

Despite generating a modest decline along with the market, the Nuveen California High Yield Municipal Bond Fund outperformed the S&P Municipal Yield Index during the twelve months ending February 28, 2014. During the reporting period, investors encountered three very different sets of market conditions. The first of these, from March through roughly the first half of May 2013, was a favorable span for investors in tax-exempt bonds. Starting in late May and continuing for much of the rest of the year, municipal bond market conditions materially worsened, due to worries about rising interest rates and the well publicized credit problems of Puerto Rico and Detroit. The tables turned once again in the first two months of 2014, thanks to an improving supply/demand balance for municipal bonds and a more favorable interest rate outlook.

On a relative basis, the Fund's duration positioning, meaning its sensitivity to changes in interest rates, was detrimental, in that the portfolio's duration was longer than that of our benchmark. As rates rose during the first half of the reporting period, the portfolio's duration naturally extended, even as we made no conscious effort to increase it. At the same time, we did not believe it would be in our shareholders' interest to change our strategy by intentionally reducing duration during the height of the market's selloff. Accordingly, we resisted the temptation to sell some of our longer duration holdings.

This willingness to maintain our approach worked in the Fund's favor. By maintaining a relatively long duration, the Fund was in a position to make up a significant portion of its prior underperformance when market conditions stabilized in the fourth quarter and turned positive in the first two months of 2014.

The Fund's relative outperformance was helped by effective credit and sector selection during the reporting period. On the individual credit side, the Fund benefited in relative terms from both the limited amount and the specific composition of our holdings in bonds associated with Puerto Rico. It proved very helpful to have a minimal weighting in the U.S. territory, whose bonds are generally tax-exempt for residents of most states. At the start of the reporting period, just 2.7% of the portfolio was classified as Puerto Rico debt. We lacked any exposure to direct government obligations of Puerto Rico, which were the hardest hit, while those Puerto Rico-associated bonds we did own tended to be relatively resilient. Our largest holdings classified as Puerto Rico debt were bonds directly backed by the revenues of American Airlines but issued by the territory's airport. Despite their Puerto Rico linkage, the securities generated a positive absolute return during the reporting period. On December 9, 2013, AMR Corp., the parent company of AAL, emerged from federal bankruptcy with the acceptance of its reorganization play by the bankruptcy court. Under the settlement agreement established to meet AMR's unsecured bond obligations, the bondholders, including the Fund, received a distribution of AAL preferred stock, which is to be converted to AAL common stock over a 120-day period.

The Fund also benefited on a relative basis from a position in bonds issued by University of the Sacred Heart, a private higher education institution that receives very little money from the territorial government. Our other Puerto Rico bond exposures during the reporting period included COFINA sales-tax bonds; a small allocation to Hospital Auxilio Mutuo bonds; and relatively short dated Puerto Rico Electric Power Authority (PREPA) bonds, which were insured by National Public Finance Guarantee.

At period end, our Puerto Rico exposure was very limited, just 0.5% of the portfolio's net assets were allocated to the bonds of University of the Sacred Heart, whose credit quality with which we remained confident. During the reporting period, we sold the Fund's positions in Hospital Auxilio Mutuo, COFINA and PREPA.

During the reporting period, a significant portion of the portfolio was invested, on average, in land-backed securities. These securities, backed by property tax revenues, make up a large portion of the California municipal bond marketplace, and we have traditionally been overweighted in this area of the market, to which we devote substantial research resources to identify securities we believe can provide our shareholders with a particularly compelling risk/reward balance. Our high allocation to this sector proved beneficial, given that this sector generally held up better than the overall municipal bond market during its downturn in the second half of 2013. Two particularly notable contributors included special tax bonds for Lammersville Unified School District Community Facilities District and Roseville Community Facilities District for Diamond Creek. In both cases, as investors grew more confident in the issuers' credit quality, the bonds generated a positive return, even amid the market's overall decline.

Also of note, the Fund benefited from our holdings in the Foothill/Eastern toll road project, which serves Orange County as State Route 241. These bonds had struggled because of lower than anticipated traffic and therefore, toll revenue. However, when the issuer had the opportunity to restructure its debt by calling its bonds and using the proceeds to issue new securities, both the old and new debt, each of which we owned, saw favorable price performance.

One source of difficulty in absolute terms was the Fund's allocation to California tobacco securitization debt. Because these types of securities tend to be highly liquid, they were frequent sale candidates during the market's selloff, and this pushed the bonds' prices downward. Our more modest exposure to this category compared with that of the benchmark proved helpful.

The Fund had a modest derivative position in the form of LIBOR swaps, an allocation that we used to keep the portfolio's duration within our desired range. These securities added mildly to the Fund's performance during the reporting period.

During the second half of 2013, as investment outflows predominated in the marketplace, we had the periodic need to generate enough proceeds to fund the redemptions. Accordingly, our bond sales emphasized relatively liquid securities, including tobacco bonds and prepaid natural gas bonds, both of which continued to experience relatively strong demand.

On the purchase side, we took advantage of opportunities in both the primary and secondary municipal bond market to buy bonds we believed had good total return prospects and were in stable sectors with good potential for credit quality improvement. During the twelve-month reporting period, our purchases included selected land-backed, charter school and hospital bonds that we believed offered the combination of stable credit quality, prospects for further narrowing of credit spreads, and an attractive risk/reward trade-off for shareholders.

Impact of the Nuveen California High Yield Municipal Bond Fund's Leveraging Strategy on Performance

One important factor impacting the returns of the Nuveen California High Yield Municipal Bond Fund relative to its comparative benchmarks was the Fund's use of leverage through its investments in inverse floating rate securities, which represent leveraged investments in underlying bonds. The Fund uses leverage because our research has shown that, over time, leveraging provides opportunities for additional income and total returns, 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 exposes 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 the use of 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 unlike unlevered funds, when short-term interest rates increase and increase when short-term interest rates decrease, and leverage would serve to reduce the Fund's income if short-term interest rates rise such that they exceed the net income earned on the bonds purchased with the proceeds of leverage.

The Fund's use of leverage through inverse floating rate securities although generating additional net income for the Fund, detracted modestly to the all-in total return of the Fund over this reporting period.

Nuveen California Municipal Bond Fund

Duration and yield curve positioning were key factors behind the Fund's performance. The portfolio's duration was longer than that of the overall municipal bond market. This heightened interest rate sensitivity caused the Fund to lag as rates rose sharply from May through September 2013.

In terms of its yield curve positioning, the Fund was relatively underweighted in bonds with maturities between two and six years and overweighted in securities with maturities of under two years and more than six years. This stance detracted, as issues in the intermediate two- to six-year range did comparatively better. The Fund's longer duration and yield curve positioning proved advantageous in the final months of the reporting period, when interest rates drifted lower.

Favorable credit quality allocation offset much of the overall weakness resulting from duration and yield curve positioning. In particular, the Fund had significant overweightings in BBB-rated and non-rated bonds and significant underweightings in the highest quality tiers of AA- and AAA-rated bonds. Lower rated credits generally outperformed during the reporting period, helped by investors' appetite for comparatively high yielding securities in the still historically low interest rate environment.

The Fund's sector positioning was also beneficial. The Fund remained considerably overweighted in bonds of tax increment financing (TIF) districts, also known as redevelopment districts. We purchased these securities prior to the start of the reporting period, when the bonds were selling at what we believed to be temporarily depressed prices. Since then, the sector recovered and, as investors gradually became more comfortable with the group, it was one of the California market's best performing segments. The Fund also benefited from its overweighting in the transportation sector (particularly toll road bonds), another category that outpaced the benchmark. By contrast, the Fund's overweighting in health care bonds detracted, due to that sector's relative underperformance.

During the reporting period, moderate amounts of investment inflows came into the portfolio and we experienced some bond calls, both of which we used to fund new purchases. Once interest rates began to rise, we started to purchase bonds with the potential to improve the yield generating ability of the portfolio without altering the Fund's overall risk profile. Higher prevailing interest rates enabled us to sell portfolio holdings issued during periods of historically low yields and use the proceeds to buy bonds with similar structures (and therefore similar levels of risk) but more favorable income characteristics. This approach had the added advantage of realizing tax losses that can be applied against future gains, thus reducing future tax liability for shareholders.

Later in the reporting period, we added bonds priced at a premium and offering higher levels of income. These bonds were more defensive than the ones we were selling, which we believed would provide a degree of protection if market conditions remained challenging.

Making swaps among our tobacco holdings was another key strategy. We traded out of very large and liquid tobacco securities and replaced them with those backed by smaller issuers. In doing so, we often improved the overall credit profile of our tobacco holdings, since many of our purchases were securities expected to have short average lives.

We also purchased lower quality, higher yielding securities when they were selling in the fall at what we viewed as attractive prices. At the same time, we sold certain lower yielding, high quality bonds with short call dates, whose price appreciation potential and yield we felt were limited.

Throughout the reporting period, the Fund had less than 1% of its assets in Puerto Rico bonds, resulting in no material impact on the Fund's absolute performance or relative to the index, even as bonds from the U.S. territory came under severe pressure.