

NUVEEN CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND 2

Form N-CSRS

November 08, 2010

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 811-10197

Nuveen California 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)

Kevin J. McCarthy  
Nuveen Investments  
333 West Wacker Drive  
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(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: August 31, 2010

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 ANNOUNCES STRATEGIC COMBINATION WITH FAF ADVISORS

On July 29, 2010, Nuveen Investments, Inc. announced that U.S. Bancorp will receive a 9.5% stake in Nuveen Investments and cash consideration in exchange for the long-term asset business of U.S. Bancorp's FAF Advisors (FAF). Nuveen Investments is the parent of Nuveen Asset Management (NAM), the investment adviser for the Funds included in this report.

FAF Advisors, which currently manages about \$25 billion of long-term assets and serves as the advisor of the First American Funds, will be combined with NAM, which currently manages about \$75 billion in municipal fixed income assets. Upon completion of the transaction, Nuveen Investments, which currently manages about \$150 billion of assets across several high-quality affiliates, will manage a combined total of about \$175 billion in institutional and retail assets.

This combination will not affect the investment objectives, strategies or policies of the Funds in this report. Over time, Nuveen Investments expects that the combination will provide even more ways to meet the needs of investors who work with financial advisors and consultants by enhancing the multi-boutique model of Nuveen Investments, which also includes highly respected investment teams at NWQ Investment Management, Santa Barbara Asset Management, Symphony Asset Management, Tradewinds Global Investors, Winslow Capital and Nuveen HydePark.

The transaction is expected to close late in 2010, subject to customary conditions.

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Chairman's  
Letter to Shareholders

Dear Shareholder,

Recent months have revealed the fragility and disparity of the global economic recovery. In the U.S., the rate of economic growth has slowed as various stimulus programs have started to wind down, exposing weakness in the underlying economy. In contrast, many emerging market countries are experiencing a return to comparatively high rates of growth. Confidence in global financial markets has been undermined by concerns about high sovereign debt levels in Europe and the U.S. Until these countries can begin credible programs to reduce their budgetary deficits, market unease and hesitation will remain. On a more positive note, even though the countries now enjoying the strongest recovery depend on exports to countries with trade deficits, these importing countries have resisted the temptation to damage world trade by erecting trade barriers.

The U.S. economy is subject to unusually high levels of uncertainty as it struggles to recover from a devastating financial crisis. Unemployment remains stubbornly high, due to what appears to be both cyclical and structural forces. Federal Reserve policy makers are considering novel approaches to provide support to the economy, and administration policy makers are debating additional stimulus measures. However, the high levels of debt owed both by U.S. consumers and the U.S. government limit their ability to engineer a stronger economic recovery.

The U.S. financial markets reflect the crosscurrents now impacting the U.S. economy. Today's historically low interest rates reflect the Fed's easy monetary policy and the demand for U.S. government debt by U.S. and overseas investors looking for a safe haven for investment. Despite a continued corporate earnings recovery, equity markets continue to reflect concern about the possibility of a "double dip" recession. Encouragingly, financial institutions are rebuilding their balance sheets and the financial reform legislation enacted this summer has the potential to address many of the most significant contributors to the financial crisis, although many details still have to be worked out.

In this difficult environment, your Nuveen investment team continues to seek sustainable investment opportunities and, at the same time, remains alert for potential risks that may result from a recovery still facing many headwinds. As your representative, the Nuveen Fund Board monitors the activities of each investment team to assure that all maintain their investment disciplines. As always, I encourage you to contact your financial consultant if you have any questions about your investment in a Nuveen Fund.

On behalf of the other members of your Fund Board, we look forward to continuing to earn your trust in the months and years ahead.

Sincerely,

Robert P. Bremner  
Chairman of the Board  
October 21, 2010

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## Portfolio Manager's Comments

Nuveen Insured California Premium Income Municipal Fund, Inc. (NPC)  
Nuveen Insured California Premium Income Municipal Fund 2, Inc. (NCL)  
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 Insured California Dividend Advantage Municipal Fund (NKL)  
Nuveen Insured California Tax-Free Advantage Municipal Fund (NKX)

Portfolio manager Scott Romans examines key investment strategies and the performance of the Nuveen California Municipal Funds for the six-month period ended August 31, 2010. Scott, who joined Nuveen in 2000, has managed NCU, NAC, NVX, NZH, NKL and NKX since 2003. He assumed portfolio management responsibility for NPC and NCL in 2005.

What key strategies were used to manage the California Funds during the six-month reporting period ended August 31, 2010?

During this period, the combination of strong demand and tighter supply of new tax-exempt municipal issuance continued to create favorable supply/demand conditions that helped to support municipal bond prices. One reason for the decline in new tax-exempt supply was the considerable issuance of taxable municipal debt under the Build America Bond program. These bonds, first issued in April 2009, offer municipal issuers a federal subsidy equal to 35% of a security's interest payments, providing issuers with an attractive alternative to traditional tax-exempt debt. For the six months ended August 31, 2010, taxable Build America Bond issuance totaled \$49.4 billion, representing more than 24% of new bonds in the municipal marketplace nationwide. Of that total, almost \$9 billion in Build American Bonds were issued in California, accounting for approximately 30% of municipal supply in the state. Since California's total new issuance—both tax-exempt and taxable—was already down substantially from the same period a year earlier, the availability of tax-exempt bonds in California was significantly impacted. Because interest payments from Build America Bonds represent taxable income, we do not view these bonds as good investment opportunities for the Funds.

For the four insured California Funds, the supply situation was compounded by the continued decline in the issuance of AAA rated insured bonds. Over the period, new insured paper accounted for approximately 7% of national issuance, compared with 11% a year earlier and historical levels of approximately 50%. In response to this situation, in May 2010 the Funds' Board of Directors/Trustees approved changes to the Funds' investment policies that increased their investment flexibility while retaining the

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.

Any reference to credit ratings for portfolio holdings refers to the highest rating assigned by a Nationally Recognized Statistical Rating Organization ("NRSRO") such as Standard & Poor's, Moody's, or Fitch. AAA, AA, A and BBB ratings are investment grade; BB, B, CCC, CC, C and D ratings are below investment grade. Holdings and ratings may change over time.

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insured nature of their portfolios. The insured California Funds can now invest at least 80% of their net assets in municipal securities that are covered by insurance from insurers with a claims-paying ability rated at least BBB-at the time of purchase. In addition, the Funds may also invest up to 20% of their net assets in uninsured investment-grade credits rated BBB-or higher. The investment policy changes are discussed in more detail on page eight.

Despite the constrained issuance on tax-exempt municipal bonds, we continued to find attractive value opportunities by exploring both the primary and secondary markets for undervalued sectors and individual credits with the potential to perform well over the long term. We found value in a variety of sectors, including lower-rated health care credits, redevelopment agency (RDA) issues and bonds issued for school districts and community colleges. During this period, a number of bonds issued by redevelopment agencies became available in the secondary market. The proceeds of these bonds are used to fund programs to improve deteriorated, blighted and economically depressed areas. The quantity of RDA bonds available in the marketplace allowed us to be very selective in evaluating these bonds on a case by case basis, buying only those where our research indicated that we potentially would be compensated for taking on additional risk.

We also purchased zero coupon and convertible zero coupon<sup>1</sup> bonds issued for school districts and community colleges. These bonds, some of which were insured with underlying ratings of AA or A, offered longer durations with very attractive yields relative to their credit quality. Due to the low yield environment, bonds with longer durations were in less demand during this period, so this also meant very attractive pricing. Because the Funds tended to be at or short of their target duration, they were in a position to take advantage of this situation, benefiting from both the longer durations and strong yields of the bonds we added to our portfolios. With both the RDA bonds and the school district and community college credits, we were able to discover attractive candidates for purchase in both the insured and uninsured segments of the market.

Early in the period, we also added bonds issued by the state of California, including California general obligation (GO) and public works bonds, which are backed by appropriations of the state. We believed that these bonds offered good value, as credit spreads remained relatively wide. As the period progressed, these spreads began to tighten, and we reduced our purchases of California GOs as their spreads became less attractive.

Some of our investment activity during this period resulted from opportunities created by the provisions of the Build America Bond program. For example, tax-exempt supply was more plentiful in the health care sector because, as 501(c)(3) (non-profit) organizations, hospitals generally do not qualify for the Build America Bond program and must continue to issue bonds in the tax-exempt municipal market. Bonds with proceeds earmarked for refundings, working capital, and private activities also are not covered by the Build America Bond program, and this resulted in attractive opportunities in various other sectors of the market.

The impact of the Build America Bond program was also evident in the area of longer-term issuance, as municipal issuers sought to take full advantage of the attractive

<sup>1</sup> Convertible zero coupon bonds are tax-exempt municipal bonds that can be converted into corporate bonds of the issuing company. These bonds are generally sold at a discount from par and mature at par.

financing terms offered by these bonds. Approximately 70% of Build America Bonds were issued with maturities of at least 30 years. Even though this program significantly reduced the availability of tax-exempt credits with longer maturities, we continued to find good opportunities to purchase attractive longer-term bonds for these Funds.

Cash for new purchases during this period was generated primarily by the proceeds from called and maturing bonds, which we worked to redeploy to keep the Funds fully invested. Selling was relatively insignificant, as the bonds in our portfolios generally offered higher yields than those available in the current marketplace.

As of August 31, 2010, all eight of these Funds continued to use inverse floating rate securities.<sup>2</sup> We employ inverse floaters as a form of leverage for a variety of reasons, including duration management, income enhancement and total return enhancement.

How did the Funds perform?

Individual results for the Nuveen California Funds, as well as relevant index and peer group information, are presented in the accompanying table.

Average Annual Total Returns on Common Share Net Asset Value\*  
For periods ended 8/31/10

	6-Month	1-Year	5-Year	10-Year
<b>Uninsured Funds</b>				
NCU	9.48%	17.30%	4.69%	6.66%
NAC	8.06%	17.03%	4.50%	6.93%
NVX	7.51%	16.39%	4.98%	N/A
NZH	7.51%	17.91%	3.64%	N/A
Standard & Poor's (S&P) California Municipal Bond Index <sup>3</sup>	6.71%	10.79%	4.56%	5.49%
Standard & Poor's (S&P) National Municipal Bond Index <sup>4</sup>	5.53%	10.19%	4.77%	5.67%
Lipper California Municipal Debt Funds Average <sup>5</sup>	9.32%	17.96%	3.65%	6.00%
<b>Insured Funds</b>				
NPC	7.69%	12.75%	4.73%	6.24%
NCL	9.69%	15.91%	4.89%	6.30%
NKL	7.62%	14.52%	5.06%	N/A
NKX	6.96%	13.23%	4.60%	N/A
Standard & Poor's (S&P) California Municipal Bond Index <sup>3</sup>	6.71%	10.79%	4.56%	5.49%
Standard & Poor's (S&P) Insured National Municipal Bond Index <sup>6</sup>	5.72%	10.21%	4.73%	5.80%
Lipper Single-State Insured Municipal Debt Funds Average <sup>7</sup>	7.90%	14.13%	4.67%	6.26%

For the six months ended August 31, 2010, the cumulative returns on common share net asset value (NAV) for all four of the uninsured Funds—NCU, NAC, NVX and NZH—exceeded the returns on the Standard & Poor's (S&P) California Municipal Bond Index as well as the S&P National Municipal Bond Index. NCU also outperformed the average return for the Lipper California Municipal Debt Funds Average, while the other three uninsured Funds underperformed this Lipper average. For the same period, all four of the insured Funds—NPC, NCL, NKL and NKX—exceeded the returns on the S&P California Municipal Bond Index and the S&P Insured National Municipal Bond Index. NCL outper-



- \* Six-month returns are cumulative; all other returns are annualized.  
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.  
For additional information, see the individual Performance Overview for your Fund in this report.
- 2 An inverse floating rate security, also known as an inverse floater, is a financial instrument designed to pay long-term tax-exempt interest at a rate that varies inversely with a short-term tax-exempt interest rate index. For the Nuveen Funds, the index typically used is the Securities Industry and Financial Markets (SIFM) Municipal Swap Index (previously referred to as the Bond Market Association Index or BMA). Inverse floaters, including those inverse floating rate securities in which the Funds invested during this reporting period, are further defined within the Notes to Financial Statements and Glossary of Terms Used in this Report sections of this report.
- 3 The Standard & Poor's (S&P) California Municipal Bond Index is an unleveraged, market value-weighted index designed to measure the performance of the tax-exempt, investment-grade California municipal bond market. This index does not reflect any initial or ongoing expenses and is not available for direct investment.
- 4 The Standard & Poor's (S&P) National Municipal Bond Index is an unleveraged, market value-weighted index designed to measure the performance of the tax-exempt, investment-grade U.S. municipal bond market. This index does not reflect any initial or ongoing expenses and is not available for direct investment.
- 5 The Lipper California Municipal Debt Funds Average is calculated using the returns of all leveraged and unleveraged closed-end funds in this category for each period as follows: 6-month, 24 funds; 1-year, 24 funds; 5-year, 24 funds; and 10-year, 12 funds. Lipper returns account for the effects of management fees and assume reinvestment of dividends, but do not reflect any applicable sales charges. The Lipper average is not available for direct investment.
- 6 The Standard & Poor's (S&P) Insured National Municipal Bond Index is an unleveraged, market value-weighted index designed to measure the performance of the insured segment of the U.S. municipal bond market. This index does not reflect any initial or ongoing expenses and is not available for direct investment.
- 7 The Lipper Single-State Insured Municipal Debt Funds Average is calculated using the returns of all leveraged and unleveraged closed-end funds in this category for each period as follows: 6-month, 44 funds; 1-year, 44 funds; 5-year, 44 funds; and 10-year, 24 funds. Lipper returns account for the effects of management fees and assume reinvestment of dividends, but do not reflect any applicable sales charges. The Lipper average is not available for direct investment.

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formed the average return on the Lipper Single-State Insured Municipal Debt Funds Average, while the remaining three insured Funds trailed the Lipper average.

Key management factors that influenced the Funds' returns during this period included yield curve positioning and duration, credit exposure and sector allocation. In addition, the use of structural leverage was an important positive factor during this period. The impact of structural leverage is discussed in more detail on page six.

For this period, municipal bonds with longer maturities generally outperformed those with shorter maturities, with credits at the longest end of the municipal yield curve posting the strongest returns. The outperformance of longer term bonds was due in part to the decline in interest rates, particularly at the longer end of the curve. The scarcity of tax-exempt bonds with longer maturities also drove up the prices of these bonds. Among these Funds, NCL and NCU were the most strongly positioned in terms of duration and yield curve, with overweights in the outperforming longer part of the yield curve and underexposure to the shorter end of the curve that did not perform as well. NVX, on the other hand, was relatively weaker in its duration and yield curve positioning, which negatively affected its performance. The net impact of duration and yield curve positioning varied in the other Funds from positive in NPC and NKX to neutral in NAC, NZH and NKL, depending upon their individual weightings along the yield curve.

During this period, we saw the demand for municipal bonds increase among both institutional and individual investors. This increase was driven by a variety of factors, including concerns about potential tax increases, the need to rebalance portfolio allocations and a growing appetite for additional risk for certain higher yielding bonds. Over time, this has caused credit spreads to narrow, and the trend greatly helped our lower-rated positions, especially those we bought at depressed values several years ago. At the same time, the supply of new tax-exempt municipal paper declined, due largely to the Build America Bond program. As investors bid up municipal bond prices, bonds rated A, BBB or below, and non-rated bonds generally outperformed those rated AAA or AA. NCU and NKL benefited from their heavier weightings in bonds rated A; NCU also had the smallest allocation of bonds rated AAA among these Funds. In NVX, an underweighting of the top-performing A rated credit category detracted from this Fund's performance. Although the remaining Funds were generally helped by their allocations to lower-rated bonds, credit exposure tended to be a neutral factor in their performance for the period.

Holdings that positively contributed to the Funds' returns during this period included health care and transportation bonds. Revenue bonds as a whole performed well, with leasing, special tax and education among the other sectors that outperformed the general municipal market. Zero coupon bonds also were among the strongest performers and general obligation (GO) and other tax-supported bonds outpaced the market for the first time in about a year. Most of these Funds, especially NZH, tended to be underweight in the tax-supported sector, particularly in California GOs, relative to the California market. This underweighting was due to the fact that California GOs comprise such a large portion of the tax-supported sector in California that it is very difficult to match the market weighting in our portfolios. During this period, the more underweight a Fund was in California GOs, the more it hurt that Fund's performance.

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Among the poorest performers during this period were pre-refunded bonds, which are often backed by U.S. Treasury securities. The underperformance of these bonds can be attributed primarily to their shorter effective maturities and higher credit quality. As of August 31, 2010, NVX held the heaviest weightings of pre-refunded bonds among these Funds, while NCL had the smallest allocation of these bonds. Among the revenue sectors, resource recovery trailed the overall municipal market by the widest margin, and industrial development revenue (IDR), housing and electric utilities also turned in weaker performances. The performances of NPC and NKX also were hurt by their allocations to the “other revenue” sector, which focuses largely on community facilities district (CFD) or land development bonds, also known as “dirt deals.” This area of the market was hard hit in the states most affected by the housing crisis, including California.

#### IMPACT OF THE FUNDS’ LEVERAGE STRATEGIES ON PERFORMANCE

One important factor impacting the returns of these Funds relative to the comparative indexes was the Funds’ use of financial leverage. The Funds use leverage because their managers believe that, over time, leveraging provides opportunities for additional income and total return for common shareholders. However, use of leverage also can expose common shareholders to additional volatility. For example, as the prices of securities held by a Fund decline, the negative impact of these valuation changes on common share net asset value and common shareholder total return is magnified by the use of leverage. Conversely, leverage may enhance common share returns during periods when the prices of securities held by a Fund generally are rising.

Leverage made a positive contribution to the performance of all these Funds over this reporting period.

#### RECENT DEVELOPMENTS REGARDING THE FUNDS’ LEVERAGED CAPITAL STRUCTURE

Shortly after their inception, each of the Funds issued auction rate preferred shares (ARPS) to create financial leverage. As noted in past shareholder reports, the ARPS issued by many closed-end funds, including these Funds, have been hampered by a lack of liquidity since February 2008. Since that time, more ARPS have been submitted for sale in each of their regularly scheduled auctions than there have been offers to buy. In fact, offers to buy have been almost completely non-existent since late February 2008. This means that these auctions have “failed to clear,” and that many, or all, of the ARPS shareholders who wanted to sell their shares in these auctions were unable to do so. This lack of liquidity in ARPS did not lower the credit quality of these shares, and ARPS shareholders unable to sell their shares continued to receive distributions at the “maximum rate” applicable to failed auctions, as calculated in accordance with the pre-established terms of the ARPS. In the recent market, with short-term rates at multi-generational lows, those maximum rates also have been low.

One continuing implication for common shareholders from the auction failures is that each Fund’s cost of leverage likely has been incrementally higher at times than it otherwise might have been had the auctions continued to be successful. As a result, each Fund’s common share earnings likely have been incrementally lower at times than they otherwise might have been.

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As noted in past shareholder reports, the Nuveen funds' Board of Directors/Trustees authorized several methods to refinance a portion of the Nuveen funds' outstanding ARPS. Some funds have utilized tender option bonds (TOBs), also known as inverse floating rate securities, for leverage purposes. The amount of TOBs that a fund may use varies according to the composition of each fund's portfolio. Some funds have a greater ability to use TOBs than others. Some funds have issued Variable Rate Demand Preferred (VRDP) Shares, a floating rate form of preferred stock. Some funds have issued MuniFund Term Preferred (MTP) Shares, a fixed rate form of preferred stock with a mandatory redemption period of five years.

While all these efforts have reduced the total amount of outstanding ARPS issued by the Nuveen funds, the funds cannot provide any assurance on when the remaining outstanding ARPS might be redeemed.

During 2010, 33 Nuveen leveraged closed-end funds, (including NAC, NZH and NKX), received a demand letter from a law firm on behalf of purported holders of common shares of each such fund, alleging that Nuveen and the funds' officers and Board of Directors/ Trustees breached their fiduciary duties related to the redemption at par of the funds' ARPS. In response, the Board established an ad hoc Demand Committee consisting of certain of its disinterested and independent Board members to investigate the claims. The Demand Committee retained independent counsel to assist it in conducting an extensive investigation. Based upon its investigation, the Demand Committee found that it was not in the best interests of each fund or its shareholders to take the actions suggested in the demand letters, and recommended that the full Board reject the demands made in the demand letters. After reviewing the findings and recommendation of the Demand Committee, the full Board of each fund unanimously adopted the Demand Committee's recommendation.

Subsequently, twenty of the funds that received demand letters (including NKX) were named as nominal defendants in a putative shareholder derivative action complaint captioned *Safier and Smith v. Nuveen Asset Management, et al.* that was filed in the Circuit Court of Cook County, Illinois, Chancery Division (the "Cook County Chancery Court") on July 27, 2010. Three additional funds were named as nominal defendants in a similar complaint captioned *Curbow v. Nuveen Asset Management, et al.* filed in the Cook County Chancery Court on August 12, 2010, and three additional funds were named as nominal defendants in a similar complaint captioned *Beidler v. Nuveen Asset Management, et al.* filed in the Cook County Chancery Court on September 21, 2010 (collectively, the "Complaints"). The Complaints, filed on behalf of purported holders of each fund's common shares, also name Nuveen Asset Management as a defendant, together with current and former Officers and interested Trustees of each of the funds (together with the nominal defendants, collectively, the "Defendants"). The Complaints contain the same basic allegations contained in the demand letters. The suits seek a declaration that the Defendants have breached their fiduciary duties, an order directing the Defendants not to redeem any ARPS at their liquidation value using fund assets, indeterminate monetary damages in favor of the funds and an award of plaintiffs' costs and disbursements in pursuing the action. Nuveen Asset Management believes that the Complaints are without merit, and intends to defend vigorously against these charges.

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As of August 31, 2010, the amounts of ARPS redeemed by the Funds are as shown in the accompanying table.

Fund	Auction Rate Preferred Shares Redeemed	% of Original Auction Rate Preferred Share
NPC	\$ 45,000,000	100.0%
NCL	\$ 21,675,000	22.8%
NCU	\$ 8,625,000	20.1%
NAC	\$ 39,475,000	22.6%
NVX	\$ 16,225,000	14.8%
NZH	\$ 117,500,000	62.8%
NKL	\$ 14,250,000	12.1%
NKX	\$ 45,000,000	100.0%

As of August 31, 2010, NZH had issued and outstanding \$86,250,000 of MTP.

During this six-month reporting period, NCU, NAC, NVX and NKL filed with the Securities and Exchange Commission (SEC) registration statements seeking to register MTP. These registration statements, declared effective by the SEC, enable the Funds to issue to the public shares of MTP to refinance all or a portion of their ARPS. The issuance of MTP by these Funds is subject to market conditions. There is no assurance that these MTP shares will be issued.

As noted in previous shareholder reports, NKX has issued and outstanding \$35.5 million of VRDP. During this six-month reporting period, NPC issued \$42.7 million of VRDP to redeem at par its remaining outstanding ARPS. As noted previously, VRDP is a newly-developed instrument that essentially replaces all or a portion of the ARPS used as leverage and potentially could be used to refinance all or a portion of the ARPS of other Funds. VRDP shares include a liquidity feature that allows holders of VRDP to have their shares purchased by a liquidity provider in the event that sell orders have not been matched with purchase orders and successfully settled in a remarketing. VRDP is offered only to qualified institutional buyers, defined pursuant to Rule 144A under the Securities Act of 1933.

During September 2010, subsequent to the reporting period, NCU completed the issuance of \$35.25 million of 2.00%, Series 2015 MTP. The net proceeds from this offering were used to refinance the Fund's remaining outstanding ARPS at par. The newly-issued MTP shares trade on the New York Stock Exchange (NYSE) under the symbol "NCU Pr C". MTP is a fixed-rate form of preferred stock with a mandatory redemption period, in this case, of five years. By issuing MTP, the Fund seeks to take advantage of the current historically low interest rate environment to lock in an attractive federally tax-exempt cost of leverage for a period as long as the term of the MTP. The Fund's managers believe that issuing MTP may help the Fund mitigate the risk of a significant increase in their cost of leverage should short-term interest rates rise sharply in the coming years. Using the proceeds from the issuance of MTP, NCU redeemed at par the remaining \$34.375 million of its outstanding ARPS.

Refer to Notes to Financial Statements, Footnote 1 – General Information and Significant Accounting Policies and Footnote 4 – Fund Shares for further details on MTP and VRDP Shares.

As of August 31, 2010, 83 out of the 84 Nuveen closed-end municipal funds that had issued ARPS have redeemed at par all or a portion of these shares. These redemptions

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bring the total amount of Nuveen's municipal closed-end funds' ARPS redemptions to approximately \$5.5 billion of the approximately \$11 billion outstanding.

For up-to-date information, please visit the Nuveen CEF Auction Rate Preferred Resource Center at: <http://www.nuveen.com/arps>.

#### RECENT CHANGES TO INVESTMENT POLICIES OF NUVEEN INSURED FUNDS

As a result of the "credit crunch" that began in 2007 and that led to the financial crisis that peaked in late 2008, the financial strength ratings assigned to most municipal bond insurers have been downgraded by the primary ratings agencies. These ratings downgrades generally have reduced, and any additional ratings downgrades may further reduce, the effective rating of many of the bonds insured by those bond insurers, including bonds held by the Funds. This in turn has sharply reduced, and in some cases may have eliminated, the value provided by such insurance. Nonetheless, the Fund's holdings continue to be well diversified and on the whole, the underlying credit quality of its holdings are of medium to high quality. It is also important to note that municipal bonds historically have had a very low rate of default.

On May 3, 2010, the Nuveen funds' Board of Directors/Trustees approved changes to the investment policies of all of the Nuveen insured municipal bond closed-end funds, including NPC, NCL, NKL and NKX. The Board took this action in response to the continuing challenges faced by municipal bond insurers. The changes to each Fund's investment policies are intended to increase the Fund's investment flexibility in pursuing its investment objective, while retaining the insured nature of its portfolio.

The changes, which were effective immediately, provide that under normal circumstances, the Funds invest at least 80% of their net assets (as defined in Footnote 7—Management Fees and Other Transactions with Affiliates) in municipal securities that are covered by insurance guaranteeing the timely payment of principal and interest. For purposes of this 80%, insurers must have a claims-paying ability rated at least BBB-at the time of purchase by at least one independent rating agency. In addition, each Fund invests at least 80% of its net assets in municipal securities that are rated at least BBB-at the time of purchase (based on the higher of the rating of the insurer, if any, or the underlying security) by at least one independent rating agency, or that are unrated but judged to be of similar credit quality by Nuveen Asset Management, or that are backed by an escrow or trust account containing sufficient U.S. government or U.S. government agency securities or U.S. Treasury-issued State and Local Government Series securities to ensure timely payment of principal and interest. Inverse floating rate securities with underlying bonds that are covered by insurance are included for purposes of the 80%. Each Fund may also invest up to 20% of its net assets in municipal securities that are rated at least BBB-(based on the higher of the rating of the insurer, if any, or the underlying bond) or that are unrated but judged to be of comparable quality by Nuveen Asset Management.

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## Common Share Dividend and Share Price Information

During the six-month reporting period ended August 31, 2010, NPC, NCU, NAC, NVX, NKL and NKX each had one monthly dividend increase. NPC, NCL and NCU also had an additional dividend increase that was declared just prior to the start of this reporting period and took effect in March 2010. The dividend of NCL and NZH remained stable throughout the period.

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 August 31, 2010, all of the Funds in this report had positive UNII balances, based upon our best estimate, for tax purposes and positive UNII balances for financial reporting purposes.

## COMMON SHARE REPURCHASES AND SHARE PRICE INFORMATION

As of August 31, 2010, and the since inception of the Funds' repurchase program, the following Funds have cumulatively repurchased common shares as shown in the accompanying table.

Fund	Common Shares Repurchased	% of Outstanding Common Shares
NPC	17,700	0.3%
NCL	53,500	0.4%
NCU	42,100	0.7%
NAC	—	—
NVX	50,700	0.3%
NZH	12,900	0.1%
NKL	32,700	0.2%
NKX	—	—

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During the six-month reporting period, the Funds did not repurchased any of their outstanding common shares.

As of August 31, 2010, the Funds' common share prices were trading at (-) discounts to their common share NAVs as shown in the accompanying table.

Fund	8/31/10 (-) Discount	Six-Month Average (-) Discount
NPC	-3.69%	-7.54%
NCL	-3.83%	-4.25%
NCU	-2.95%	-6.91%
NAC	-0.96%	-5.11%
NVX	-1.66%	-3.46%
NZH	-0.07%	-1.32%
NKL	-1.37%	-3.24%
NKX	-3.22%	-5.26%

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NPC Nuveen Insured California  
 Performance Premium Income  
 OVERVIEW Municipal Fund, Inc.

as of August 31, 2010

#### Fund Snapshot

Common Share Price	\$	14.86
Common Share Net Asset Value (NAV)	\$	15.43
Premium/(Discount) to NAV		-3.69%
Market Yield		5.85%
Taxable-Equivalent Yield <sup>3</sup>		8.99%
Net Assets Applicable to Common Shares (\$000)	\$	99,399
Average Effective Maturity on Securities (Years)		16.57
Leverage-Adjusted Duration		8.93

#### Average Annual Total Return (Inception 11/19/92)

	On Share Price	On NAV
6-Month (Cumulative)	15.18%	7.69%
1-Year	20.75%	12.75%
5-Year	4.82%	4.73%
10-Year	6.53%	6.24%

#### Portfolio Composition

(as a % of total investments)

Tax Obligation/Limited	35.1%
Tax Obligation/General	23.6%
U.S. Guaranteed	19.0%
Water and Sewer	13.0%
Other	9.3%

#### Insurers

(as a % of total Insured investments)

NPFG <sup>4</sup>	31.9%
AGM	25.8%
AMBAC	19.0%
FGIC	13.5%
AGC	7.6%
SYNCORA GTY	2.2%

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this Fund's Performance Overview page.

- The Fund intends to invest at least 80% of its managed assets in municipal securities that are covered by insurance guaranteeing the timely payment of principal and interest. See Notes to Financial Statements, Footnote 1 – General Information and Significant Accounting Policies, Insurance for more information. As of August 31, 2010, the Fund includes 81% (as a % of total investments) of Insured securities.

- 2 Ratings shown are the highest of Standard & Poor's Group, Moody's Investor Service, Inc. or Fitch, Inc. AAA includes bonds with an implied AAA rating since they are backed by U.S. Government or agency securities. AAA, AA, A and BBB ratings are investment grade; BB, B, CCC, CC, C and D ratings are below-investment grade. Holdings designated N/R are not rated by any of these national rating agencies.
- 3 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 34.9%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 4 MBIA's public finance subsidiary.

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NCL  
Performance  
OVERVIEW

Nuveen Insured California  
Premium Income  
Municipal Fund 2, Inc.

as of August 31, 2010

Fund Snapshot

Common Share Price	\$	14.32
Common Share Net Asset Value (NAV)	\$	14.89
Premium/(Discount) to NAV		-3.83%
Market Yield		6.03%
Taxable-Equivalent Yield <sup>3</sup>		9.26%
Net Assets Applicable to Common Shares (\$000)	\$	188,649
Average Effective Maturity on Securities (Years)		17.56
Leverage-Adjusted Duration		9.37

Average Annual Total Return  
(Inception 3/18/93)

	On Share Price	On NAV
6-Month (Cumulative)	16.16%	9.69%
1-Year	20.92%	15.91%
5-Year	4.88%	4.89%
10-Year	6.20%	6.30%

Portfolio Composition  
(as a % of total investments)

Tax Obligation/Limited	41.7%
Tax Obligation/General	20.8%
Water and Sewer	14.4%
U.S. Guaranteed	6.7%
Utilities	5.6%
Transportation	5.0%
Other	5.8%

Insurers  
(as a % of total Insured investments)

AMBAC	27.3%
NPFG4	21.7%
AGM	20.7%
FGIC	18.1%
AGC	11.6%
SYNCORA GTY	0.6%

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this Fund's Performance Overview page.

- 1 The Fund intends to invest at least 80% of its managed assets in municipal securities that are covered by insurance guaranteeing the timely payment of principal and interest. See Notes to Financial Statements, Footnote 1 – General Information and Significant Accounting Policies,

Insurance for more information. As of August 31, 2010, the Fund includes 96% (as a % of total investments) of Insured securities.

- 2 Ratings shown are the highest of Standard & Poor's Group, Moody's Investor Service, Inc. or Fitch, Inc. AAA includes bonds with an implied AAA rating since they are backed by U.S. Government or agency securities. AAA, AA, A and BBB ratings are investment grade; BB, B, CCC, CC, C and D ratings are below-investment grade. Holdings designated N/R are not rated by any of these national rating agencies.
- 3 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 34.9%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 4 MBIA's public finance subsidiary.

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NCU Nuveen California  
Performance Premium Income  
OVERVIEW Municipal Fund

as of August 31, 2010

Fund Snapshot

Common Share Price	\$	14.13
Common Share Net Asset Value (NAV)	\$	14.56
Premium/(Discount) to NAV		-2.95%
Market Yield		6.16%
Taxable-Equivalent Yield <sup>2</sup>		9.46%
Net Assets Applicable to Common Shares (\$000)	\$	83,486
Average Effective Maturity on Securities (Years)		17.61
Leverage-Adjusted Duration		8.87

Average Annual Total Return  
(Inception 6/18/93)

	On Share Price	On NAV
6-Month (Cumulative)	20.51%	9.48%
1-Year	24.58%	17.30%
5-Year	5.52%	4.69%
10-Year	6.74%	6.66%

Portfolio Composition  
(as a % of total investments)

Tax Obligation/Limited	30.3%
Tax Obligation/General	18.9%
Health Care	17.8%
U.S. Guaranteed	8.5%
Utilities	5.3%
Water and Sewer	5.0%
Other	14.2%

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- 1 Ratings shown are the highest of Standard & Poor's Group, Moody's Investor Service, Inc. or Fitch, Inc. AAA includes bonds with an implied AAA rating since they are backed by U.S. Government or agency securities. AAA, AA, A and BBB ratings are investment grade; BB, B, CCC, CC, C and D ratings are below-investment grade. Holdings designated N/R are not rated by any of these national rating agencies.
- 2 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 34.9%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.



NAC Nuveen California  
Performance Dividend Advantage  
OVERVIEW Municipal Fund

as of August 31, 2010

Fund Snapshot

Common Share Price	\$	14.40
Common Share Net Asset Value (NAV)	\$	14.54
Premium/(Discount) to NAV		-0.96%
Market Yield		6.21%
Taxable-Equivalent Yield <sup>2</sup>		9.54%
Net Assets Applicable to Common Shares (\$000)	\$	341,415
Average Effective Maturity on Securities (Years)		19.41
Leverage-Adjusted Duration		9.61

Average Annual Total Return  
(Inception 5/26/99)

	On Share Price	On NAV
6-Month (Cumulative)	18.05%	8.06%
1-Year	25.62%	17.03%
5-Year	4.61%	4.50%
10-Year	7.24%	6.93%

Portfolio Composition

(as a % of total investments)

Tax Obligation/Limited	22.7%
Health Care	19.0%
Tax Obligation/General	13.7%
U.S. Guaranteed	11.7%
Transportation	9.1%
Water and Sewer	7.1%
Education and Civic Organizations	4.7%
Other	12.0%

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this Fund's Performance Overview page.

- 1 Ratings shown are the highest of Standard & Poor's Group, Moody's Investor Service, Inc. or Fitch, Inc. AAA includes bonds with an implied AAA rating since they are backed by U.S. Government or agency securities. AAA, AA, A and BBB ratings are investment grade; BB, B, CCC, CC, C and D ratings are below-investment grade. Holdings designated N/R are not rated by any of these national rating agencies.
- 2 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 34.9%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.





NVX Nuveen California  
Performance Dividend Advantage  
OVERVIEW Municipal Fund 2

as of August 31, 2010

Fund Snapshot

Common Share Price	\$	14.83
Common Share Net Asset Value (NAV)	\$	15.08
Premium/(Discount) to NAV		-1.66%
Market Yield		6.47%
Taxable-Equivalent Yield <sup>2</sup>		9.94%
Net Assets Applicable to Common Shares (\$000)	\$	222,421
Average Effective Maturity on Securities (Years)		14.80
Leverage-Adjusted Duration		8.73

Average Annual Total Return  
(Inception 3/27/01)

	On Share Price	On NAV
6-Month (Cumulative)	13.10%	7.51%
1-Year	24.51%	16.39%
5-Year	5.68%	4.98%
Since Inception	6.17%	6.48%

Portfolio Composition

(as a % of total investments)

U.S. Guaranteed	25.4%
Health Care	13.9%
Tax Obligation/Limited	11.1%
Tax Obligation/General	9.0%
Transportation	8.6%
Water and Sewer	7.5%
Utilities	6.3%
Education and Civic Organizations	5.5%
Other	12.7%

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- 1 Ratings shown are the highest of Standard & Poor's Group, Moody's Investor Service, Inc. or Fitch, Inc. AAA includes bonds with an implied AAA rating since they are backed by U.S. Government or agency securities. AAA, AA, A and BBB ratings are investment grade; BB, B, CCC, CC, C and D ratings are below-investment grade. Holdings designated N/R are not rated by any of these national rating agencies.
- 2 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 34.9%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

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NZH Nuveen California  
Performance Dividend Advantage  
OVERVIEW Municipal Fund 3

as of August 31, 2010

Fund Snapshot

Common Share Price	\$	13.69
Common Share Net Asset Value (NAV)	\$	13.70
Premium/(Discount) to NAV		-0.07%
Market Yield		6.57%
Taxable-Equivalent Yield <sup>2</sup>		10.09%
Net Assets Applicable to Common Shares (\$000)	\$	330,409
Average Effective Maturity on Securities (Years)		16.90
Leverage-Adjusted Duration		8.77

Average Annual Total Return  
(Inception 9/25/01)

	On Share Price	On NAV
6-Month (Cumulative)	11.79%	7.51%
1-Year	20.19%	17.91%
5-Year	5.06%	3.64%
Since Inception	5.24%	5.45%

Portfolio Composition  
(as a % of total investments)

Tax Obligation/Limited	28.4%
Health Care	19.1%
U.S. Guaranteed	13.4%
Tax Obligation/General	11.7%
Consumer Staples	5.2%
Transportation	5.0%
Water and Sewer	4.0%
Other	13.2%

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- 1 Ratings shown are the highest of Standard & Poor's Group, Moody's Investor Service, Inc. or Fitch, Inc. AAA includes bonds with an implied AAA rating since they are backed by U.S. Government or agency securities. AAA, AA, A and BBB ratings are investment grade; BB, B, CCC, CC, C and D ratings are below-investment grade. Holdings designated N/R are not rated by any of these national rating agencies.
- 2 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 34.9%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.



NKL Nuveen Insured California  
Performance Dividend Advantage  
OVERVIEW Municipal Fund

as of August 31, 2010

Fund Snapshot

Common Share Price	\$	15.14
Common Share Net Asset Value (NAV)	\$	15.35
Premium/(Discount) to NAV		-1.37%
Market Yield		6.22%
Taxable-Equivalent Yield <sup>3</sup>		9.55%
Net Assets Applicable to Common Shares (\$000)	\$	234,211
Average Effective Maturity on Securities (Years)		16.10
Leverage-Adjusted Duration		7.11

Average Annual Total Return  
(Inception 3/25/02)

	On Share Price	On NAV
6-Month (Cumulative)	14.40%	7.62%
1-Year	22.68%	14.52%
5-Year	6.22%	5.06%
Since Inception	6.39%	6.83%

Portfolio Composition  
(as a % of total investments)

Tax Obligation/Limited	32.8%
Tax Obligation/General	19.2%
U.S. Guaranteed	11.6%
Utilities	9.9%
Water and Sewer	9.8%
Health Care	4.4%
Other	12.3%

Insurers

(as a % of total Insured investments)

AGM	26.5%
AMBAC	26.0%
NFPG4	21.5%
FGIC	17.4%
SYNCORA GTY	5.3%
Other	3.3%

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this Fund's Performance Overview page.

- The Fund intends to invest at least 80% of its managed assets in municipal securities that are covered by insurance guaranteeing the timely payment of principal and interest. See Notes to Financial

Statements, Footnote 1 – General Information and Significant Accounting Policies, Insurance for more information. As of August 31, 2010, the Fund includes 82% (as a % of total investments) of Insured securities.

- 2 Ratings shown are the highest of Standard & Poor's Group, Moody's Investor Service, Inc. or Fitch, Inc. AAA includes bonds with an implied AAA rating since they are backed by U.S. Government or agency securities. AAA, AA, A and BBB ratings are investment grade; BB, B, CCC, CC, C and D ratings are below-investment grade. Holdings designated N/R are not rated by any of these national rating agencies.
- 3 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 34.9%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 4 MBIA's public finance subsidiary.

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NKX Nuveen Insured California  
Performance Tax-Free Advantage  
OVERVIEW Municipal Fund

as of August 31, 2010

Fund Snapshot

Common Share Price	\$	14.12
Common Share Net Asset Value (NAV)	\$	14.59
Premium/(Discount) to NAV		-3.22%
Market Yield		5.69%
Taxable-Equivalent Yield <sup>3</sup>		8.74%
Net Assets Applicable to Common Shares (\$000)	\$	85,868
Average Effective Maturity on Securities (Years)		18.24
Leverage-Adjusted Duration		8.88

Average Annual Total Return  
(Inception 11/21/02)

	On Share Price	On NAV
6-Month (Cumulative)	13.00%	6.96%
1-Year	17.57%	13.23%
5-Year	5.31%	4.60%
Since Inception	5.01%	5.86%

Portfolio Composition  
(as a % of total investments)

Tax Obligation/Limited	32.3%
Health Care	16.3%
Tax Obligation/General	12.9%
U.S. Guaranteed	11.8%
Water and Sewer	9.7%
Transportation	5.6%
Long-Term Care	5.1%
Other	6.3%

Insurers

(as a % of total Insured investments)

AMBAC	44.7%
NPFG4	20.2%
AGM	12.1%
AGC	9.4%
BHAC	5.5%
SYNCORA GTY	4.5%
FGIC	3.6%

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- 1 The Fund intends to invest at least 80% of its managed assets in municipal securities that are covered by insurance guaranteeing the timely payment of principal and interest. See Notes to Financial Statements, Footnote 1 – General Information and Significant Accounting Policies, Insurance for more information. As of August 31, 2010, the Fund includes 77% (as a % of total investments) of Insured securities.
- 2 Ratings shown are the highest of Standard & Poor's Group, Moody's Investor Service, Inc. or Fitch, Inc. AAA includes bonds with an implied AAA rating since they are backed by U.S. Government or agency securities. AAA, AA, A and BBB ratings are investment grade; BB, B, CCC, CC, C and D ratings are below-investment grade. Holdings designated N/R are not rated by any of these national rating agencies.
- 3 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 34.9%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 4 MBIA's public finance subsidiary.

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NPC	Nuveen Insured California Premium Income Municipal Fund, Inc. Portfolio of Investments	August 31, 2010 (Unaudited)	
Principal Amount (000)	Description (1)	Optional Call Provisions (2)	