NUVEEN AMT-FREE MUNICIPAL INCOME FUND
Form N-CSR
January 08, 2015

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 811-21213

Nuveen AMT-Free Municipal Income 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: October 31

Date of reporting period: October 31, 2014

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

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

ITEM 1. REPORTS TO STOCKHOLDERS.

NUVEEN INVESTMENTS ACQUIRED BY TIAA-CREF

On October 1, 2014, TIAA-CREF completed its previously announced acquisition of Nuveen Investments, Inc., 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 $840 billion in assets under management as of October 1, 2014 and is a leading provider of retirement services in the academic, research, medical and cultural fields. Nuveen expects to operate as a separate subsidiary within TIAA-CREF's asset management business. Nuveen's existing leadership and key investment teams have remained in place following the transaction.

NFAL and your fund's sub-adviser(s) continue to manage your fund according to the same objectives and policies as before, and there have been no changes to your fund's operations.

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Chairman's Letter to Shareholders

Dear Shareholders,

Over the past year, global financial markets were generally strong as stocks of many countries rose due to strengthening economies and abundant central bank support. A low and stable interest rate environment allowed the bond market to generate modest but positive returns.

More recently, markets have been less certain as economic growth is strengthening in some parts of the world, but in other areas recovery has been slow or uneven at best. Despite increasing market volatility, geopolitical turmoil and concerns over rising rates, better-than-expected earnings results and economic data have supported U.S. stocks. Europe continues to face challenges as disappointing growth and inflation measures led the European Central Bank to further cut interest rates. Japan is suffering from the burden of the recent consumption tax as the government's structural reforms continue to steadily progress. Flare-ups in hotspots, such as the ongoing Russia-Ukraine conflict and Middle East, have not yet been able to derail the markets, though that remains a possibility. With all the challenges facing the markets, accommodative monetary policy around the world has helped lessen the impact of these events.

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

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

William J. Schneider
Chairman of the Board
December 22, 2014

Portfolio Managers' Comments

Nuveen Quality Municipal Fund, Inc. (NQI)
Nuveen Municipal Opportunity Fund, Inc. (NIO)
Nuveen Dividend Advantage Municipal Income Fund (NVG)
Nuveen AMT-Free Municipal Income Fund (NEA)

These Funds feature portfolio management by Nuveen Asset Management, LLC, an affiliate of Nuveen Investments, Inc. Portfolio managers Douglas J. White, CFA, and Paul L. Brennan, CFA, discuss U.S. economic and municipal market conditions, key investment strategies and the twelve-month performance of these four national Funds. Douglas assumed portfolio management responsibility for NQI in 2011 and Paul has managed NIO, NVG and NEA since 2006.

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

During this reporting period, the U.S. economy continued to expand at a moderate pace. The Federal Reserve (Fed) maintained efforts to bolster growth and promote progress toward its mandates of maximum employment and price stability by holding the benchmark fed funds rate at the record low level of zero to 0.25% that it established in December 2008. At its October 2014 meeting, the Fed announced that it would end its bond-buying stimulus program as of November 1, 2014, after tapering its monthly asset purchases of mortgage-backed and longer term Treasury securities from the original $85 billion per month to $15 billion per month over the course of seven consecutive meetings (December 2013 through September 2014). In making the announcement, the Fed cited substantial improvement in the outlook for the labor market since the inception of the current asset purchase program as well as sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability. The Fed also reiterated that it would continue to look at a wide range of factors, including labor market conditions, indicators of inflationary pressures and readings on financial developments, in determining future actions, saying that it would likely maintain the current target range for the fed funds rate for a considerable time after the end of the asset purchase program, especially if projected inflation continues to run below the Fed's 2% longer-run goal. However, if economic data shows faster progress toward the Fed's employment and inflation objectives than currently anticipated, the Fed indicated that the first increase in the fed funds rate since 2006 could occur sooner than expected.

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

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

Bond insurance guarantees only the payment of principal and interest on the bond when due, and not the value of the bonds themselves, which will fluctuate with the bond market and the financial success of the issuer and the insurer.

Insurance relates specifically to the bonds in the portfolio and not to the share prices of a Fund. No representation is made as to the insurers' ability to meet their commitments.

Portfolio Managers' Comments (continued)

In the third quarter of 2014, the U.S. economy, as measured by the U.S. gross domestic product (GDP), grew at a 3.9% annual rate, compared with -2.1% in the first quarter of 2014 and 4.6% in the second quarter. Third-quarter growth was attributed in part to expanded business investment in equipment and a major increase in military spending. The Consumer Price Index (CPI) rose 1.7% year-over-year as of October 2014, while the core CPI (which excludes food and energy) increased 1.8% during the same period, below the Fed's unofficial longer term inflation objective of 2.0%. As of October 2014, the national unemployment rate was 5.8%, the lowest level since July 2008, down from the 7.2% reported in October 2013, marking the ninth consecutive month in which the economy saw the addition of more than 200,000 new jobs. The housing market continued to post gains, although price growth has shown signs of deceleration in recent months. The average home price in the S&P/Case-Shiller Index of 20 major metropolitan areas rose 4.9% for the twelve months ended September 2014 (most recent data available at the time this report was prepared), putting home prices at fall 2004 levels, although they continued to be down 15%-17% from their mid-2006 peaks.

During the first two months of this reporting period, the financial markets remained unsettled in the aftermath of widespread uncertainty about the future of the Fed's quantitative easing program. Also contributing to investor concern was Congress's failure to reach an agreement on the Fiscal 2014 federal budget, which triggered sequestration, or automatic spending cuts and a 16-day federal government shutdown in October 2013. This sequence of events sparked increased volatility in the financial markets, with the Treasury market trading off, the municipal market following suit and spreads widening as investor concern grew, prompting selling by bondholders across the fixed income markets.

As we turned the page to calendar year 2014, the market environment stabilized, as the Fed's policies continued to be accommodative and some degree of political consensus was reached. The Treasury market rallied and municipal bonds rebounded, with flows into municipal bond funds increasing, while supply continued to drop. This supply/demand dynamic served as a key driver of municipal market performance for the period. The resultant rally in municipal bonds generally produced positive total returns for the reporting period as a whole. Overall, municipal credit fundamentals continued to improve, as state governments made good progress in dealing with budget issues. Due to strong growth in personal income tax and sales tax collections, year-over-year totals for state tax revenues had increased for 16 consecutive quarters as of the second quarter of 2014, while on the expense side, many states made headway in cutting and controlling costs, with the majority implementing some type of pension reform. The current level of municipal issuance reflects the more conservative approach to state budgeting. For the twelve months ended October 31, 2014, municipal bond issuance nationwide totaled $319.7 billion, down 4.6% from the issuance for the twelve-month reporting period ended October 31, 2013.

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

During this reporting period, we saw the municipal market environment shift from the volatility of late 2013 to a rally driven by strong demand and tight supply and reinforced by an environment of improving fundamentals in 2014. For the reporting period as a whole, municipal bond prices generally rose, as interest rates declined and the yield curve flattened. We continued to take a bottom-up approach to identifying sectors that appeared undervalued as well as individual credits that had the potential to perform well over the long term and helped us keep the Funds fully invested.

Municipal supply nationally remained tight throughout this reporting period, although issuance improved during the second half of this twelve-month period compared with the first half. Much of this increase was attributable to refunding activity as bond issuers, prompted by low interest rates, sought to lower debt service costs by retiring older bonds from proceeds of lower cost new bond

issues. During the third quarter of 2014, for example, we saw current refunding activity increase by more than 64% nationwide and estimates are that refundings accounted for 35% of issuance during the first nine months of 2014. These refunding bonds do not represent an actual net increase in issuance because they are mostly replacing outstanding issues that were called soon thereafter. As a result, it remained challenging to source attractive bonds that would enhance the Funds' holdings. Much of our investment activity focus during this reporting period was on reinvesting the cash generated by current calls into credit-sensitive sectors and longer maturity bonds that could help us offset the decline in rates and maintain investment performance potential. These Funds were well positioned coming into the reporting period, so we could be selective in looking for opportunities to purchase bonds that added value.

During this reporting period, NIO, NVG and NEA continued to find value in the transportation sector, especially in tollroad issues, where we saw increased activity after several years of low issuance and deferred maintenance. Among our additions in the transportation sector were bonds for the Downtown Crossing bridge across the Ohio River from Indiana to Louisville, Kentucky, credits issued for the Dulles Tollroad in Virginia and suburban Washington, D.C. and a new issue from the Foothill/Eastern Transportation Corridor Agency (F/ETCA) in California, which we purchased at attractive prices in December 2013. In one of the largest fixed rate municipal transactions of 2013, F/ETCA refinanced $2.3 billion in outstanding debt originally issued in 1999. Traffic and revenues on the toll-roads in F/ETCA's 36-mile network, which links major population centers in Southern California, have increased and the bonds have performed well for the Funds since purchase. In October 2014, we also participated in the tender offer and new issuance of tollroad bonds for the San Joaquin Hills Transportation Corridor Agency in Orange County, California, the largest tollroad network in the western U.S. The agency took advantage of the decline in interest rates to restructure its debt by making a tender offer for existing bonds at terms favorable to shareholders and then issuing new bonds at lower interest rates, thereby reducing debt service costs, improving cash flow and increasing financial flexibility. In our view, the agency's debt restructuring resulted in an improved credit outlook for these bonds and we added some of the new San Joaquin credits to our portfolios. We also bought health care bonds, including credits issued for Catholic Health Initiatives, a national nonprofit health system that operates hospitals and long term care facilities in 17 states, including Colorado and Tennessee. In addition, we added to our holdings in the higher education, water and sewer and utilities sector. In the utilities sector, we purchased Long Island Power Authority (LIPA) general revenue bonds.

In NQI, we were focused on purchasing bonds in areas of the market that we expected to perform well as the economy continued to improve, including gas tax revenue bonds in Louisiana, natural gas revenue bonds in Arizona and Nebraska and income tax revenue credits and industrial development revenue (IDR) bonds in New York. We also added health care bonds in a variety of states as well as a student housing issue in Texas, where an increase in this type of issuance resulted in attractive deals. Over the summer of 2014, NQI also purchased its first holdings of tobacco bonds, adding credits issued by the Buckeye Tobacco Settlement Financing Authority in Ohio in the secondary market at attractive prices. With these additions, the Fund is now modestly overweighted in tobacco credits, which contributed to its performance during this reporting period. After NQI's holdings of Foothill/Eastern Transportation Corridor Agency bonds were called as part of the refinancing described above, we decided not to purchase the new Foothill/Eastern issue for duration management reasons. The new bonds offered relatively long durations and we decided to position NQI slightly less aggressively while still keeping the Fund's duration longer than that of its benchmark.

Also during this reporting period, S&P upgraded its credit rating on National Public Finance Guarantee Corp. (NPFG), the insurance subsidiary of MBIA, to AA- from A, citing NPFG's strong operating performance and competitive position in the financial guarantee market. As a result, the ratings on the Funds' holdings of bonds backed by insurance from NPFG, and not already rated at least AA-due to higher underlying borrower ratings, were similarly upgraded to AA- as of mid-March 2014. This action produced an increase

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

Cash for purchases was generated primarily by proceeds from called and matured bonds, which we worked to redeploy to keep the Funds fully invested and support their income streams. In particular, NQI had a significant amount of its pre-refunded holdings reach their maturity dates. As previously mentioned, the decline in municipal yields and the flattening of the municipal yield curve relative to the Treasury curve helped to make refunding deals more attractive. The increase in this activity provided ample cash for purchases and drove much of our trading. NQI also sold a few of its very short pre-refunded holdings, some longer duration housing and utilities bonds, as well as the last of its Puerto Rico exposure.

As of October 31, 2014, all 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. As part of our duration management strategies, NEA added a forward interest rate swap to reduce price volatility risk to movements in U.S. interest rates relative to the Fund's benchmark. Since interest rates decreased from the time the interest rate swap was implemented to the end of the reporting period, the swap had a negative impact on performance.

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

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

For the twelve months ended October 31, 2014, the total returns on common share NAV for all four of these Funds exceeded the return for the national S&P Municipal Bond Index. For the same period, the Funds underperformed the average return for the Lipper General and Insured Leveraged Municipal Debt Funds Classification Average.

Key management factors that influenced the Funds' returns included duration and yield curve positioning, credit exposure and sector allocation. Keeping the Funds fully invested throughout the reporting period was also beneficial for performance. In addition, the use of regulatory leverage was an important positive factor affecting the Funds' performance. Leverage is discussed in more detail later in the Fund Leverage section of this report.

Given the combination of declining interest rates and a flattening yield curve during this reporting period, municipal bonds with longer maturities generally outperformed those with shorter maturities. Overall, credits with maturities of 15 years or more, especially those at the longest end of the municipal yield curve, outperformed the general municipal market, while bonds at the shortest end of the curve produced the weakest results. In general, the Funds' durations and yield curve positioning were positive for performance during this reporting period. Consistent with our long term strategy, these Funds tended to have longer durations than the municipal market in general, with overweightings in the longer parts of the yield curve that performed well and underweightings in the underperforming shorter end of the curve. This was especially true in NVG, where greater sensitivity to changes in interest rates benefited its performance. The positioning of NIO, which had the shortest duration among these Funds, was slightly less advantageous and it

received less benefit from duration. Overall, duration and yield curve positioning was the major driver of performance for this reporting period and differences in positioning accounted for much of the differences in performance.

During this reporting period, lower rated bonds, that is, bonds rated A or lower, generally outperformed higher quality bonds, as the municipal market rally continued and investors became more willing to accept risk in their search for yield in the current low rate environment. While their longer average durations provided an advantage for lower rated bonds, these bonds also generally had stronger duration-adjusted results. Each of these Funds benefited from its lower rated holdings during this reporting period. As with duration, differences in credit allocation accounted for some of the differences in performance. NQI, for example, had the strongest overweighting in the A rated category among these four Funds, but this was offset to some degree by the fact that this Fund also had an overweighting in bonds rated AAA and AA and the lowest weighting in BBB-rated bonds. Much of this credit allocation was due to NQI's legacy as a formerly insured Fund. Overall, NEA had the best positioning in terms of credit exposure, with the highest allocation to BBB-rated bonds and lower and the smallest exposure to AAA-rated and AA-rated bonds.

Among the municipal market sectors, health care, industrial development revenue (IDR) and transportation (especially tollroads) bonds generally were the top performers, with water and sewer, education, and housing credits also outperforming the general municipal market. The outperformance of the health care sector can be attributed in part to the recent scarcity of these bonds, with issuance in this sector declining 31% during the first nine months of 2014, while the performance of tollroad bonds was boosted by improved traffic and revenue from increased rates. All four Funds had double-digit weightings in the healthcare and transportation sectors, with NEA having the heaviest healthcare exposure and NIO having the heaviest exposure to transportation. In addition, dedicated tax bonds, such as those backed by sales tax revenues, performed well for NQI. During this reporting period, lower rated tobacco credits backed by the 1998 master tobacco settlement agreement experienced some volatility, but finished the reporting period ahead of the national municipal market as a whole. The performance of these bonds was helped by their longer effective durations, lower credit quality and the broader demand for higher yields. In addition, several tobacco bond issues were strengthened following the favorable resolution of a dispute over payments by tobacco companies. All of these Funds were overweighted in tobacco bonds.

In contrast, pre-refunded bonds, which are often backed by U.S. Treasury securities, were among the poorest performing market segments. The underperformance of these bonds relative to the market can be attributed primarily to their shorter effective maturities and higher credit quality. Because of the quality and higher yields at which the Funds generally own their pre-refunded bonds (typically purchased in an earlier, higher yielding environment), we continued to hold these bonds in our portfolios and the Funds tended to be overweighted in this category. In addition, general obligation (GO) credits generally trailed the revenue sectors as well as the municipal market as a whole, although by a substantially smaller margin than the pre-refunded category. Some of the GOs' underperformance can be attributed to their higher quality.

We continued to monitor two situations in the broader municipal market for any impact on the Funds' holdings and performance: the ongoing economic problems of Puerto Rico and the City of Detroit's bankruptcy case. In terms of Puerto Rico holdings, shareholders should note that all of the Funds in this report had limited exposure to Puerto Rico debt during this period, with NQI selling the last of its Puerto Rico bonds during the summer of 2014. These territorial bonds were originally added to our portfolios to keep assets fully invested and working for the Funds as well as to enhance diversity, duration and credit. The Puerto Rico credits offered higher yields, added diversification and triple exemption (i.e., exemption from most federal, state and local taxes). However, Puerto Rico's continued economic weakening, escalating debt service obligations and long-standing inability to deliver a balanced budget led to multiple

Portfolio Managers' Comments (continued)

downgrades on its debt over the past two years. Following the latest rating reduction by Moody's in July 2014, Puerto Rico general obligation debt was rated B2/BB+/BB (below investment grade) by Moody's, S&P and Fitch, respectively, with negative outlooks. In late June 2014, Puerto Rico approved new legislation creating a judicial framework and formal process that would allow several of the commonwealth's public corporations to restructure their public debt. As of October 2014, the Nuveen complex held $69.8 million in bonds backed by public corporations in Puerto Rico that could be restructured under this legislation, representing less than 0.1% of our municipal assets under management. In light of the evolving economic situation in Puerto Rico, Nuveen's credit analysis of the commonwealth had previously considered the possibility of a default and restructuring of public corporations and we adjusted our portfolios to prepare for such an outcome, although no such default or restructuring has occurred to date. The Nuveen complex's entire exposure to obligations of the government of Puerto Rico and other Puerto Rico issuers totaled 0.35% of assets under management as of October 31, 2014. As of October 31, 2014, the Funds' limited exposure to Puerto Rico generally was invested in bonds that were insured (which we believe adds value), pre-refunded (and therefore backed by securities such as U.S. Treasuries), or unrelated to the government of Puerto Rico. Overall, the small size of our exposures meant that our Puerto Rico holdings had a negligible impact on performance.

The second situation that we continued to monitor was the City of Detroit's filing for Chapter 9 in federal bankruptcy court in July 2013. Burdened by decades of population loss, changes in the auto manufacturing industry and significant tax base deterioration, Detroit had been under severe financial stress for an extended period prior to the filing. Before Detroit could exit bankruptcy, issues surrounding the city's complex debt portfolio, numerous union contracts, significant legal questions and more than 100,000 creditors had to be resolved. By October 2014, all of the major creditors had reached an agreement on the city's plan to restructure its $18.5 billion of debt and emerge from bankruptcy and on November 7, 2014 (subsequent to the close of this reporting period). The U.S. Bankruptcy Court approved the city's bankruptcy exit plan, thereby erasing approximately $7 billion in debt. The settlement plan also provided for $1.7 billion to be reinvested in the city for improved public safety, blight removal and upgraded basic services. All of these Funds except NQI had exposure to Detroit related bonds, including Detroit water and sewer credits. In August 2014, Detroit announced a tender offer for the city's water and sewer bonds, aimed at replacing some of the $5.2 billion of existing debt with lower cost bonds. (Not all of the Detroit water and sewer bonds were eligible for the tender offer.) Approximately $1.5 billion in existing water and sewer bonds were returned to the city by investors under the tender offer, which enabled Detroit to issue $1.8 billion in new water and sewer bonds, resulting in savings of $250 million over the life of the bonds. The city also raised about $150 million to finance sewer system improvements. As part of the deal, Detroit water and sewer bonds were permanently removed from the city's bankruptcy case. In general, Detroit water and sewer credits rallied following these positive developments.

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

As of October 31, 2014, the Funds' percentages of leverage are as shown in the accompanying table.

	NQI	NIO	NVG	NEA
Effective Leverage*	35.72%	37.25%	35.20%	35.85%
Regulatory Leverage*	29.30%	30.71%	29.24%	29.57%

* 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.

THE FUNDS' REGULATORY LEVERAGE

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

	VMTP Shares		VRDP Shares		
Fund	Series	Shares Issued at Liquidation Value	Series	Shares Issued at Liquidation Value	Total
NQI	2015	$ 240,400,000	—	—	$ 240,000,000
NIO	—	—	1	$ 667,200,000	$ 667,200,000
NVG	—	—	1	$ 179,000,000	$ 179,000,000
NEA	2016	$ 151,000,000	1	$ 219,000,000	
			2	$ 130,900,000	