

NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3  
Form N-CSR  
January 07, 2011

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 811-10345

Nuveen Dividend Advantage Municipal Fund 3

(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, 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.

---

NUVEEN INVESTMENTS ANNOUNCES STRATEGIC COMBINATION WITH FAF ADVISORS

On July 29, 2010, Nuveen Investments 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. 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 \$160 billion of assets across several high-quality affiliates, will manage a combined total of about \$185 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 Hyde Park, NWQ Investment Management, Santa Barbara Asset Management, Symphony Asset Management, Tradewinds Global Investors and Winslow Capital.

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

---

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 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 encouraging note, while the global recovery is expanding existing trade imbalances, policy makers in the leading economies are making a sustained effort to create a global framework through which various countries can take complimentary actions that should reduce those imbalances over time.

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 implementing another round of quantitative easing, a novel approach to provide support to the economy. However, the high levels of debt owed both by U.S. consumers and the U.S. government limit the Fed's 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 intervention in the financial markets and the demand for U.S. government debt by U.S. and overseas investors looking for a safe haven for investment. The continued corporate earnings recovery and recent electoral results are giving a boost to equity markets. Encouragingly, financial institutions are rebuilding their balance sheets and the financial reform legislation enacted last summer has the potential to address many of the most significant contributors to the financial crisis, although the 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  
December 22, 2010

Nuveen Investments 1

## Portfolio Managers' Comments

Nuveen Performance Plus Municipal Fund, Inc. (NPP)  
Nuveen Municipal Advantage Fund, Inc. (NMA)  
Nuveen Municipal Market Opportunity Fund, Inc. (NMO)  
Nuveen Dividend Advantage Municipal Fund (NAD)  
Nuveen Dividend Advantage Municipal Fund 2 (NXZ)  
Nuveen Dividend Advantage Municipal Fund 3 (NZF)

Portfolio managers Tom Spalding and Paul Brennan discuss U.S. economic and municipal market conditions, key investment strategies, and the twelve-month performance of these six national Funds. A 34-year veteran of Nuveen, Tom has managed NXZ since its inception in 2001 and NPP, NMA, NMO and NAD since 2003. With 20 years of industry experience, including 12 years at Nuveen, Paul assumed portfolio management responsibility for NZF in 2006.

What factors affected the U.S. economy and municipal market during the twelve-month reporting period ended October 31, 2010?

During this reporting period, the U.S. economy remained under considerable stress, and both the Federal Reserve (Fed) and the federal government continued their efforts to improve the overall economic environment. For its part, the Fed held the benchmark fed funds rate in a target range of zero to 0.25% since cutting it to this record low level in December 2008. At its November 2010 meeting (shortly after the end of this reporting period), the central bank renewed its commitment to keeping the fed funds rate at "exceptionally low levels" for an "extended period." The Fed also announced a second round of quantitative easing, in which it plans to purchase \$600 billion in U.S. Treasury bonds by June 30, 2011. The goal of this plan is to lower long-term interest rates and thereby stimulate economic activity and create jobs. The federal government continued to focus on implementing the economic stimulus package passed in early 2009 and aimed at providing job creation, tax relief, fiscal assistance to state and local governments, and expansion of unemployment benefits and other federal social welfare programs.

These and other measures to ease the economic recession produced some signs of economic improvement. In the third quarter of 2010, the U.S. economy, as measured by the U.S. gross domestic product (GDP), grew at an annualized rate of 2.5%, marking the first time the economy had strung together five consecutive quarters of growth since 2007-2008. Inflation remained relatively tame, as the Consumer Price Index (CPI) rose just 1.2% year-over-year as of October 2010. The core CPI (which excludes food and energy) rose 0.6% over this period, the smallest twelve-month increase in the 53-year history of this index. Housing prices also continued to recover from their April 2009 lows, although growth rates moderated from previous periods. For the twelve months ended September

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.

Any reference to credit ratings for portfolio holdings denotes 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.

2 Nuveen Investments

---

2010 (the latest information available at the time this report was prepared), the average home price in the Standard & Poor's/Case-Shiller Index rose 0.6%. Unemployment remained persistently high, with the jobless rate hovering at or above 9.5% over the past 15 months. As of October 31, 2010, national unemployment stood at 9.6% for the third consecutive month, down from its 26-year high of 10.1% in October 2009.

Municipal bond prices generally rose during this period, as the combination of strong demand and tight supply of new tax-exempt issuance created favorable conditions. One reason for the decrease in new tax-exempt supply was the heavy issuance of taxable municipal debt under the Build America Bond program. Build America Bonds, which were created as part of the February 2009 economic stimulus package, currently offer municipal issuers a federal subsidy equal to 35% of a bond's interest payments, providing issuers with an alternative to traditional tax-exempt debt that often proves to be lower in cost. For the twelve months ended October 31, 2010, taxable Build America Bonds issuance totaled \$100.3 billion, accounting for 24% of new bonds issued in the municipal market.

Over the twelve months ended October 31, 2010, municipal bond issuance nationwide—both tax-exempt and taxable—totaled \$418.0 billion, an increase of 9% compared with the twelve-month period ended October 31, 2009. However, if taxable Build America Bond issuance were removed from the equation, the supply of tax-exempt bonds alone actually fell 15%. Since interest payments from Build America Bonds represent taxable income, we do not view these bonds as good investment opportunities for the tax-exempt Nuveen municipal closed-end funds.

What key strategies were used to manage these Funds during this reporting period?

As previously mentioned, the supply of tax-exempt municipal bonds declined nationally during this period, due in part to the issuance of taxable municipal bonds under the Build America Bond program. In this environment of constrained issuance of tax-exempt municipal bonds, we continued to take a bottom-up approach to discovering undervalued sectors and individual credits with the potential to perform well over the long term. In NPP, NMA, NMO, NAD and NXZ, we worked to increase our health care exposure, evaluating each opportunity in this sector on the basis of its individual merits. In general, our criteria focused on determining the top hospitals in their service areas with good management and reasonable debt levels. In NZF, we found value in several areas of the market, including health care, tax-supported sectors and other essential services such as toll roads and airports.

Some of this investment activity 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. Supply in the health care sector was also boosted in the early part of the period by hospitals issuing fixed rate bonds in order to refinance and retire outstanding debt that had initially been issued as variable rate debt. Bonds with proceeds earmarked for refundings, working capital and private activities also are not

Nuveen Investments 3

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 also was evident in the area of longer-term issuance, as municipal issuers sought to take full advantage of the attractive financing terms offered by these bonds. Approximately 70% of Build America Bonds were issued with maturities of at least 30 years. Even though this significantly reduced the availability of tax-exempt credits with longer maturities and made locating appropriate longer bonds more challenging, 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. On the whole, active selling was minimal, as the bonds in our portfolios generally offered higher yields than those available in the current marketplace.

As of October 31, 2010, all six of these Funds continued to use inverse floating rate securities.<sup>1</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 these 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 10/31/10

Fund	1-Year	5-Year	10-Year
NPP	12.07%	5.35%	6.60%
NMA	12.90%	5.02%	6.68%
NMO	11.71%	4.56%	5.93%
NAD	12.60%	5.19%	7.14%
NXZ	9.12%	4.97%	N/A
NZF	11.41%	5.45%	N/A
Standard & Poor's (S&P) National Municipal Bond Index <sup>2</sup>	8.06%	4.98%	5.58%
Lipper General Leveraged Municipal Debt Funds Average <sup>3</sup>	13.81%	4.87%	6.36%

For the twelve months ended October 31, 2010, the total returns on common share net asset value (NAV) for all six of these Nuveen Funds exceeded the return for the Standard & Poor's (S&P) National Municipal Bond Index. For this same period, all six Funds lagged the average return for the Lipper General Leveraged Municipal Debt Funds Average.

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

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.

- 1 An inverse floating rate security, also known as an inverse floater, is a financial instrument designed to pay long-term interest at a rate that varies inversely with a short-term interest rate index. For the Nuveen Funds, the index typically used is the Securities Industry and Financial Markets Association (SIFMA) 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.
- 2 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.
- 3 The Lipper General Leveraged Municipal Debt Funds Average is calculated using the returns of all leveraged closed-end funds in this category for each period as follows: 1-year, 46 funds; 5-year, 44 funds; and 10-year, 30 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.

#### 4 Nuveen Investments

---

During this period, municipal bonds with longer maturities generally outperformed those with shorter maturities, with bonds 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 in the intermediate and longer segments of the curve. The scarcity of tax-exempt bonds with longer maturities also drove up the prices of these bonds. In general, the greater a Fund's exposure to the outperforming longer part of the yield curve, the greater the positive impact on the Fund's return. During this period, NPP, NMA, NMO and NAD all benefited from their longer durations. On the other hand, NXZ and NZF, both of which were introduced in 2001, faced the increased bond calls typically associated with a Fund's ten-year anniversary. These Funds' higher exposure to bonds with short call dates was reflected in their shorter durations, which detracted from their performance during this period.

Credit exposure also played a role in performance. The demand for municipal bonds increased during this period driven by a variety of factors, including concerns about potential tax increases, the need to rebalance portfolio allocations, and a growing appetite for higher yields and additional risk. At the same time, the supply of new tax-exempt municipal paper declined, due largely to Build America Bond issuance. As investors bid up municipal bond prices, bonds rated BBB or below generally outperformed those rated AAA. All of these Funds, especially NMA, benefited from their allocations to lower-rated bonds.

Holdings that generally contributed positively to the Funds' returns during this period included industrial development revenue and health care bonds. In general, all of these Funds, particularly NMA and NAD, had strong weightings in health care, which added to their performance. Revenue bonds as a whole performed well, with transportation, housing, leasing, and special tax credits among the other sectors that outperformed the general municipal market. Zero coupon bonds and credits backed by the 1998 master tobacco settlement agreement also were among the strongest performers. As of October 31, 2010, these Funds held approximately 4% to 7% of their portfolios in lower-rated tobacco bonds.

In contrast, pre-refunded bonds, which are often backed by U.S. Treasury securities trailed the general municipal market during this period. While these securities continued to provide attractive tax-free income, their muted investment performance was attributed primarily to their shorter effective maturities and higher credit quality. Although allocations of pre-refunded bonds fell in most of these Funds due to bond calls during the period, NXZ continued to hold the heaviest weighting of pre-refunded bonds, which detracted from its performance. NAD held the fewest pre-refunded bonds. Among the revenue sectors, resource recovery trailed the overall municipal market by the widest margin, and water and sewer bonds turned in a relatively weaker performance. General obligation and other tax-supported bonds also struggled to keep pace with the overall municipal market return during these twelve months.

Nuveen Investments 5

## IMPACT OF THE FUNDS' LEVERAGE STRATEGIES ON PERFORMANCE

One important factor impacting the returns of most 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 each of 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.

As noted in past shareholder reports, the Nuveen funds' Board of Directors/Trustees authorized several methods that can be used separately or in combination 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.

6 Nuveen Investments

---

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, and as of the time this report was prepared, 36 Nuveen leveraged closed-end funds (including NAD, NXZ and NZF), 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, 26 of the funds that received demand letters (including NAD, NXZ, and NZF) 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 Director/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.

Nuveen Investments 7

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

As of October 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 Shares
NPP	\$ 59,100,000	12.3 %
NMA	\$ 358,000,000	100.0 %
NMO	\$ 380,000,000	100.0 %
NAD	\$ 174,925,000	59.3 %
NXZ	\$ 222,000,000	100.0 %
NZF	\$ 75,050,000	24.1 %

#### MTP

During the current reporting period, NAD completed the issuance of \$144.3 million of 2.70% Series 2015 MTP. The net proceeds from this offering was used to refinance a portion of the Fund's outstanding ARPS at par. The newly-issued MTP shares trade on the New York Stock Exchange (NYSE) under the symbols "NAD 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 its cost of leverage should short term interest rates rise sharply in the coming years.

Subsequent to the reporting period, NZF completed the issuance of \$65 million of 2.80%, Series 2016 MTP. The net proceeds from this offering were used to refinance a portion of the Fund's outstanding ARPS at par. The newly-issued MTP shares trade on the NYSE under the symbol "NZF Pr C". Immediately following its MTP issuance, NZF noticed for redemption at par \$63.625 million of its outstanding ARPS using the MTP proceeds.

#### VRDP

As noted in previous shareholder reports, and as of October 31, 2010, NXZ has issued and outstanding \$196.0 million of VRDP.

During the current reporting period, NMA and NMO issued \$296.8 and \$350.9 million, respectively, of VRDP to redeem at par their 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. VRDPs offer interest rates that are reset frequently on a regular schedule and generally reflect current short-term municipal market interest rates.

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 October 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 bring the total amount of Nuveen's municipal closed-end funds' ARPS redemptions to approximately \$5.7 billion of the approximately \$11.0 billion outstanding.

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

8 Nuveen Investments

---

Common Share Dividend  
and Share Price Information

During the twelve-month reporting period ended October 31, 2010, NPP, NMA, NMO and NZF each had two monthly dividend increases and NAD and NXZ each had one monthly dividend increase.

Due to normal portfolio activity, common shareholders of the following Funds received capital gains and/or net ordinary income distributions at the end of December 2009 as follows:

Fund	Long-Term Capital Gains (per share)	Short-Term Capital Gains and/or Ordinary Income (per share)
NPP	\$ 0.0136	\$ 0.0004
NMA	\$ 0.0654	\$ 0.0014
NXZ	—	\$ 0.0139
NZF	\$ 0.0449	\$ 0.0196

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 October 31, 2010, all of the Funds in this report had positive UNII balances for both tax and financial reporting purposes.

COMMON SHARE REPURCHASES AND SHARE PRICE INFORMATION

Since the inception of the Funds' repurchase program, the Funds have not repurchased any of their outstanding common shares.

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

Fund	10/31/10 (+)Premium/(-)Discount	12-Month Average (+)Premium/(-)Discount
NPP	-1.90%	-3.05%
NMA	+0.88%	+0.64%
NMO	+2.68%	+1.06%
NAD	-1.91%	-2.35%
NXZ	-0.61%	-0.68%
NZF	-1.09%	-2.11%

Nuveen Investments 9





Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

NPP  
Performance  
OVERVIEW

Nuveen Performance  
Plus Municipal  
Fund, Inc.

as of October 31, 2010

Fund Snapshot

Common Share Price	\$15.00	
Common Share Net Asset Value (NAV)	\$15.29	
Premium/(Discount) to NAV	-1.90	%
Market Yield	6.28	%
Taxable-Equivalent Yield <sup>1</sup>	8.72	%
Net Assets Applicable to Common Shares (\$000)	\$916,152	
Average Effective Maturity on Securities (Years)	16.70	
Leverage-Adjusted Duration	9.62	

Average Annual Total Return  
(Inception 6/22/89)

	On Share Price		On NAV	
1-Year	18.65	%	12.07	%
5-Year	6.83	%	5.35	%
10-Year	8.56	%	6.60	%

States<sup>4</sup>

(as a % of total investments)

Illinois	17.3	%
California	12.1	%
Colorado	6.4	%
Texas	4.8	%
Florida	4.7	%
New Jersey	4.4	%
Ohio	4.1	%
Nevada	3.5	%
Washington	3.3	%
Michigan	3.1	%
New York	2.9	%
Massachusetts	2.9	%
Indiana	2.5	%
Pennsylvania	2.3	%
Puerto Rico	2.1	%
Louisiana	2.1	%
South Carolina	1.8	%
Minnesota	1.8	%
Iowa	1.7	%
Arizona	1.5	%
Other	14.7	%

Portfolio Composition<sup>4</sup>  
(as a % of total investments)

Tax Obligation/Limited	17.3	%
Transportation	16.5	%
U.S. Guaranteed	14.8	%
Health Care	13.5	%
Tax Obligation/General	13.4	%
Utilities	8.0	%
Consumer Staples	6.4	%
Other	10.1	%

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 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 federal income tax rate of 28%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 The Fund paid shareholders a capital gain and net ordinary income distribution in December 2009 of \$0.0140 per share.
- 3 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.
- 4 Holdings are subject to change.

10 Nuveen Investments

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

NMA  
Performance  
OVERVIEW

Nuveen Municipal  
Advantage  
Fund, Inc.

as of October 31, 2010

Fund Snapshot

Common Share Price	\$14.92	
Common Share		
Net Asset Value (NAV)	\$14.79	
Premium/(Discount) to NAV	0.88	%
Market Yield	6.64	%
Taxable-Equivalent Yield <sup>1</sup>	9.22	%
Net Assets Applicable to Common Shares (\$000)	\$642,364	
Average Effective Maturity on Securities (Years)	18.96	
Leverage-Adjusted Duration	9.17	

Average Annual Total Return  
(Inception 12/19/89)

	On Share Price		On NAV	
1-Year	19.58	%	12.90	%
5-Year	6.06	%	5.02	%
10-Year	8.34	%	6.68	%

States<sup>4</sup>

(as a % of total investments)

California	12.9	%
Illinois	10.8	%
Texas	10.0	%
Louisiana	8.7	%
Colorado	6.3	%
Washington	6.2	%
Puerto Rico	4.7	%
Ohio	4.0	%
Pennsylvania	3.0	%
Florida	2.9	%
New York	2.5	%
Tennessee	2.5	%
Nevada	2.4	%
New Jersey	2.1	%
South Carolina	2.0	%
North Carolina	1.8	%
Michigan	1.6	%
Oklahoma	1.6	%
Other	14.0	%

Portfolio Composition<sup>4</sup>

(as a % of total investments)

Health Care	20.9	%
-------------	------	---

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

Utilities	14.7	%
Tax Obligation/Limited	14.1	%
U.S. Guaranteed	12.4	%
Tax Obligation/General	12.1	%
Transportation	10.2	%
Consumer Staples	6.1	%
Other	9.5	%

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 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 federal income tax rate of 28%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 The Fund paid shareholders a capital gain and net ordinary income distribution in December 2009 of \$0.0668 per share.
- 3 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.
- 4 Holdings are subject to change.

Nuveen Investments 11

NMO  
Performance  
OVERVIEW

Nuveen Municipal  
Market Opportunity  
Fund, Inc.

as of October 31, 2010

## Fund Snapshot

Common Share Price	\$14.55	
Common Share Net Asset Value (NAV)	\$14.17	
Premium/(Discount) to NAV	2.68	%
Market Yield	6.72	%
Taxable-Equivalent Yield <sup>1</sup>	9.33	%
Net Assets Applicable to Common Shares (\$000)	\$648,017	
Average Effective Maturity on Securities (Years)	19.81	
Leverage-Adjusted Duration	10.90	

Average Annual Total Return  
(Inception 3/21/90)

	On Share Price		On NAV	
1-Year	17.03	%	11.71	%
5-Year	6.76	%	4.56	%
10-Year	7.66	%	5.93	%

States<sup>3</sup>

(as a % of total investments)

California	13.6	%
Illinois	10.0	%
Texas	6.5	%
Washington	5.9	%
Colorado	5.5	%
Ohio	5.3	%
Puerto Rico	5.0	%
Pennsylvania	4.7	%
South Carolina	4.0	%
Nevada	3.8	%
North Carolina	3.8	%
New York	3.2	%
New Jersey	2.7	%
North Dakota	2.4	%
Louisiana	2.1	%
Alaska	1.9	%
Michigan	1.9	%
Indiana	1.8	%
Virginia	1.7	%
Other	14.2	%

Portfolio Composition<sup>3</sup>

(as a % of total investments)

Health Care	18.2	%
Transportation	17.3	%
Tax Obligation/General	15.5	%
Tax Obligation/Limited	13.6	%
Utilities	7.8	%
U.S. Guaranteed	7.6	%
Consumer Staples	7.3	%
Other	12.7	%

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 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 federal income tax rate of 28%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 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 Holdings are subject to change.

12 Nuveen Investments

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

NAD  
Performance  
OVERVIEW

Nuveen Dividend  
Advantage  
Municipal Fund

as of October 31, 2010

Fund Snapshot

Common Share Price	\$14.40
Common Share Net Asset Value (NAV)	\$14.68
Premium/(Discount) to NAV	-1.91 %
Market Yield	6.33 %
Taxable-Equivalent Yield <sup>1</sup>	8.79 %
Net Assets Applicable to Common Shares (\$000)	\$576,895
Average Effective Maturity on Securities (Years)	17.56
Leverage-Adjusted Duration	9.97

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

	On Share Price		On NAV	
1-Year	19.17	%	12.60	%
5-Year	6.05	%	5.19	%
10-Year	7.90	%	7.14	%

States<sup>3</sup>

(as a % of total municipal bonds)

Illinois	21.4	%
Washington	7.5	%
Florida	7.2	%
New York	5.3	%
California	5.1	%
Wisconsin	5.0	%
Louisiana	4.7	%
New Jersey	4.5	%
Texas	4.2	%
Puerto Rico	3.9	%
Colorado	3.8	%
Nevada	3.4	%
Michigan	3.0	%
Indiana	2.9	%
Ohio	2.8	%
Pennsylvania	2.3	%
Other	13.0	%

Portfolio Composition<sup>3</sup>

(as a % of total investments)

Health Care	21.5	%
Tax Obligation/Limited	20.8	%
Tax Obligation/General	16.0	%

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

Transportation	13.0	%
Consumer Staples	6.0	%
Education and Civic Organizations	4.8	%
U.S. Guaranteed	4.6	%
Investment Companies	0.1	%
Other	13.2	%

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

- 1 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 federal income tax rate of 28%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 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 Holdings are subject to change.

Nuveen Investments 13



NXZ Nuveen Dividend  
 Performance Advantage  
 OVERVIEW Municipal Fund 2

as of October 31, 2010

Fund Snapshot

Common Share Price	\$14.67	
Common Share		
Net Asset Value (NAV)	\$14.76	
Premium/(Discount) to NAV	-0.61	%
Market Yield	6.54	%
Taxable-Equivalent Yield <sup>1</sup>	9.08	%
Net Assets Applicable to Common Shares (\$000)	\$434,764	
Average Effective Maturity on Securities (Years)	15.42	
Leverage-Adjusted Duration	6.69	

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

	On Share Price		On NAV	
1-Year	10.89	%	9.12	%
5-Year	5.07	%	4.97	%
Since Inception	6.33	%	6.82	%

States<sup>4</sup>

(as a % of total investments)

Texas	17.9	%
Illinois	11.2	%
California	8.9	%
Michigan	8.5	%
Colorado	6.2	%
New York	5.9	%
New Mexico	3.7	%
Louisiana	3.6	%
Minnesota	3.1	%
Alabama	3.0	%
Florida	2.9	%
Washington	2.8	%
Kansas	2.7	%
Pennsylvania	2.1	%
Oregon	2.1	%
Indiana	1.7	%
Other	13.7	%

Portfolio Composition<sup>4</sup>

(as a % of total investments)

U.S. Guaranteed	31.5	%
Tax Obligation/Limited	20.6	%
Health Care	14.0	%

Transportation	10.7	%
Consumer Staples	7.2	%
Tax Obligation/General	4.5	%
Other	11.5	%

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 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 federal income tax rate of 28%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 The Fund paid shareholders a net ordinary income distribution in December 2009 of \$0.0139 per share.
- 3 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.
- 4 Holdings are subject to change.

14 Nuveen Investments

NZF  
Performance  
OVERVIEW

Nuveen Dividend  
Advantage  
Municipal Fund 3

as of October 31, 2010

Fund Snapshot

Common Share Price	\$	14.58	
Common Share			
Net Asset Value (NAV)	\$	14.74	
Premium/(Discount) to NAV		-1.09	%
Market Yield		6.75	%
Taxable-Equivalent Yield <sup>1</sup>		9.38	%
Net Assets Applicable to Common Shares (\$000)	\$	595,413	
Average Effective Maturity on Securities (Years)		14.96	
Leverage-Adjusted Duration		5.93	

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

	On Share Price		On NAV	
1-Year	17.04	%	11.41	%
5-Year	6.79	%	5.45	%
Since Inception	6.26	%	6.63	%

States<sup>4</sup>

(as a % of total municipal bonds)

Texas	14.7	%
Illinois	12.0	%
Washington	10.5	%
California	7.3	%
Michigan	6.4	%
Colorado	4.1	%
Indiana	3.9	%
Iowa	3.6	%
New Jersey	3.2	%
Louisiana	3.1	%
New York	3.1	%
Wisconsin	3.0	%
Kentucky	2.3	%
Massachusetts	2.0	%
Missouri	2.0	%
Nevada	1.8	%
Maryland	1.7	%
Georgia	1.5	%
Other	13.8	%

Portfolio Composition<sup>4</sup>

(as a % of total investments)

U.S. Guaranteed	23.7	%
-----------------	------	---

Transportation	17.8	%
Health Care	15.8	%
Tax Obligation/General	8.2	%
Tax Obligation/Limited	8.0	%
Utilities	4.8	%
Water and Sewer	4.6	%
Consumer Staples	4.1	%
Investment Companies	0.4	%
Other	12.6	%

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 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 federal income tax rate of 28%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 The Fund paid shareholders a capital gain and net ordinary income distribution in December 2009 of \$0.0645 per share.
- 3 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.
- 4 Holdings are subject to change.

Nuveen Investments 15

## NPP Shareholder Meeting Report

NMA

NMO

The annual meeting of shareholders was held on July 27, 2010 in the Lobby Conference Room, 333 West Wacker Drive, Chicago, IL 60606; at this meeting the shareholders were asked to vote on the election of Board Members, the elimination of Fundamental Investment Policies and the approval of new Fundamental Investment Policies. The meeting for NPP was subsequently adjourned to September 9, 2010.

	NPP		NMA		NMO	
	Common and Preferred shares voting together as a class	Preferred shares voting together as a class	Common and Preferred shares voting together as a class	Preferred shares voting together as a class	Common and Preferred shares voting together as a class	Preferred shares voting together as a class
To approve the elimination of the Fund's fundamental policy relating to investments in municipal securities and below investment grade securities.						
For	28,384,032	1,716	—	—	—21,192,999	2,764
Against	1,588,179	1,176	—	—	— 1,339,168	—
Abstain	830,467	17	—	—	— 617,855	—
Broker Non-Votes	7,606,326	4,947	—	—	— 7,967,266	—
Total	38,409,004	7,856	—	—	—31,117,288	2,764
To approve the new fundamental policy relating to investments in municipal securities for the Fund.						
For	28,527,693	1,720	—	—	—21,280,072	2,764
Against	1,370,126	1,160	—	—	— 1,189,246	—
Abstain	904,859	29	—	—	— 680,706	—
Broker Non-Votes	7,606,326	4,947	—	—	— 7,967,264	—
Total	38,409,004	7,856	—	—	—31,117,288	2,764
To approve the elimination of the fundamental policy relating to investing in other investment companies.						
For	28,255,942	1,711	—	—	—21,148,091	2,764
Against	1,571,658	1,169	—	—	— 1,289,569	—
Abstain	975,078	29	—	—	— 712,365	—
Broker Non-Votes	7,606,326	4,947	—	—	— 7,967,263	—
Total	38,409,004	7,856	—	—	—31,117,288	2,764

To approve the  
elimination of the  
fundamental policy  
relating to derivatives  
and short sales.

For	28,143,153	1,711	—	—21,125,070	2,764
Against	1,729,919	1,177	—	— 1,399,712	—
Abstain	929,606	21	—	— 625,241	—
Broker Non-Votes	7,606,326	4,947	—	— 7,967,265	—
Total	38,409,004	7,856	—	—31,117,288	2,764

To approve the  
elimination of the  
fundamental policy  
relating to commodities.

For	28,151,297	1,711	—	—21,120,466	2,764
Against	1,686,090	1,166	—	— 1,307,098	—
Abstain	965,291	32	—	— 722,461	—
Broker Non-Votes	7,606,326	4,947	—	— 7,967,263	—
Total	38,409,004	7,856	—	—31,117,288	2,764

To approve the new  
fundamental policy  
relating to commodities.

For	28,177,145	1,714	—	—21,089,983	2,764
Against	1,632,444	1,163	—	— 1,325,419	—
Abstain	993,089	32	—	— 734,623	—
Broker Non-Votes	7,606,326	4,947	—	— 7,967,263	—
Total	38,409,004	7,856	—	—31,117,288	2,764

16 Nuveen Investments

---

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

	NPP Common and Preferred shares voting together as a class	NMA Common and Preferred shares voting together as a class	NMO Common and Preferred shares voting together as a class	Preferred shares voting together as a class
Approval of the Board Members was reached as follows:				
<b>John Amboian</b>				
For	37,295,583	—31,707,829	—30,007,058	—
Withhold	1,113,421	— 686,750	— 1,110,230	—
Total	38,409,004	—32,394,579	—31,117,288	—
<b>Robert P. Bremner</b>				
For	37,297,224	—31,588,697	—29,986,898	—
Withhold	1,111,780	— 805,882	— 1,130,390	—
Total	38,409,004	—32,394,579	—31,117,288	—
<b>Jack B. Evans</b>				
For	37,327,664	—31,573,835	—30,016,956	—
Withhold	1,081,340	— 820,744	— 1,100,332	—
Total	38,409,004	—32,394,579	—31,117,288	—
<b>William C. Hunter</b>				
For	—	5,593	— 2,018	— 2,464
Withhold	—	2,263	— 200	— 300
Total	—	7,856	— 2,218	— 2,764
<b>David J. Kundert</b>				
For	37,306,638	—31,581,694	—29,978,064	—
Withhold	1,102,366	— 812,885	— 1,139,224	—
Total	38,409,004	—32,394,579	—31,117,288	—
<b>William J. Schneider</b>				
For	—	5,593	— 2,018	— 2,464
Withhold	—	2,263	— 200	— 300
Total	—	7,856	— 2,218	— 2,764
<b>Judith M. Stockdale</b>				
For	37,239,033	—31,503,609	—29,994,859	—
Withhold	1,169,971	— 890,970	— 1,122,429	—
Total	38,409,004	—32,394,579	—31,117,288	—
<b>Carole E. Stone</b>				
For	37,277,344	—31,558,979	—30,004,299	—
Withhold	1,131,660	— 835,600	— 1,112,989	—
Total	38,409,004	—32,394,579	—31,117,288	—
<b>Terence J. Toth</b>				
For	37,300,708	—31,680,928	—30,024,683	—
Withhold	1,108,296	— 713,651	— 1,092,605	—
Total	38,409,004	—32,394,579	—31,117,288	—





NAD  
NXZ  
NZF  
Shareholder Meeting Report (continued)

	NAD Common and Preferred shares voting together as a class	NXZ Common and Preferred shares voting together as a class	NZF Common and Preferred shares voting together as a class	Preferred shares voting together as a class
To approve the elimination of the Fund's fundamental policy relating to investments in municipal securities and below investment grade securities.				
For	—	—	—	—
Against	—	—	—	—
Abstain	—	—	—	—
Broker Non-Votes	—	—	—	—
Total	—	—	—	—
To approve the new fundamental policy relating to investments in municipal securities for the Fund.				
For	—	—	—	—
Against	—	—	—	—
Abstain	—	—	—	—
Broker Non-Votes	—	—	—	—
Total	—	—	—	—
To approve the elimination of the fundamental policy relating to investing in other investment companies.				
For	—	—	—	—
Against	—	—	—	—
Abstain	—	—	—	—
Broker Non-Votes	—	—	—	—
Total	—	—	—	—
To approve the elimination of the fundamental policy relating to derivatives and				

short sales.

For	—	—	—	—	—	—
Against	—	—	—	—	—	—
Abstain	—	—	—	—	—	—
Broker Non-Votes	—	—	—	—	—	—
Total	—	—	—	—	—	—

To approve the elimination of the fundamental policy relating to commodities.

For	—	—	—	—	—	—
Against	—	—	—	—	—	—
Abstain	—	—	—	—	—	—
Broker Non-Votes	—	—	—	—	—	—
Total	—	—	—	—	—	—

To approve the new fundamental policy relating to commodities.

For	—	—	—	—	—	—
Against	—	—	—	—	—	—
Abstain	—	—	—	—	—	—
Broker Non-Votes	—	—	—	—	—	—
Total	—	—	—	—	—	—

18 Nuveen Investments

	NAD		NXZ		NZF	
	Common and Preferred shares voting together as a class	Preferred shares voting together as a class	Common and Preferred shares voting together as a class	Preferred shares voting together as a class	Common and Preferred shares voting together as a class	Preferred shares voting together as a class
Approval of the Board						
Members was reached as follows:						
John Amboian						
For	—	—	—	—	—	—
Withhold	—	—	—	—	—	—
Total	—	—	—	—	—	—
Robert P. Bremner						
For	—	—	—	—	—	—
Withhold	—	—	—	—	—	—
Total	—	—	—	—	—	—
Jack B. Evans						
For	—	—	—	—	—	—
Withhold	—	—	—	—	—	—
Total	—	—	—	—	—	—
William C. Hunter						
For	—	9,340,366	—	980	—	4,264
Withhold	—	2,427,527	—	890	—	1,486
Total	—	11,767,893	—	1,870	—	5,750
David J. Kundert						
For	—	—	—	—	—	—
Withhold	—	—	—	—	—	—
Total	—	—	—	—	—	—
William J. Schneider						
For	—	9,340,366	—	980	—	4,264
Withhold	—	2,427,527	—	890	—	1,486
Total	—	11,767,893	—	1,870	—	5,750
Judith M. Stockdale						
For	43,921,868	—26,365,545	—	—34,915,348	—	—
Withhold	3,305,705	— 569,455	—	— 782,960	—	—
Total	47,227,573	—26,935,000	—	—35,698,308	—	—
Carole E. Stone						
For	43,983,468	—26,368,565	—	—34,946,092	—	—
Withhold	3,244,105	— 566,435	—	— 752,216	—	—
Total	47,227,573	—26,935,000	—	—35,698,308	—	—
Terence J. Toth						
For	—	—	—	—	—	—
Withhold	—	—	—	—	—	—
Total	—	—	—	—	—	—



Report of Independent  
Registered Public Accounting Firm

The Board of Directors/Trustees and Shareholders  
Nuveen Performance Plus Municipal Fund, Inc.  
Nuveen Municipal Advantage Fund, Inc.  
Nuveen Municipal Market Opportunity Fund, Inc.  
Nuveen Dividend Advantage Municipal Fund  
Nuveen Dividend Advantage Municipal Fund 2  
Nuveen Dividend Advantage Municipal Fund 3

We have audited the accompanying statements of assets and liabilities, including the portfolios of investments, of Nuveen Performance Plus Municipal Fund, Inc., Nuveen Municipal Advantage Fund, Inc., Nuveen Municipal Market Opportunity Fund, Inc., Nuveen Dividend Advantage Municipal Fund, Nuveen Dividend Advantage Municipal Fund 2 and Nuveen Dividend Advantage Municipal Fund 3 (the "Funds") as of October 31, 2010, and the related statements of operations and cash flows (Nuveen Municipal Advantage Fund, Inc., Nuveen Municipal Market Opportunity Fund, Inc., Nuveen Dividend Advantage Municipal Fund, Nuveen Dividend Advantage Municipal Fund 2 and Nuveen Dividend Advantage Municipal Fund 3 only) for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Funds' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2010, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial positions of Nuveen Performance Plus Municipal Fund, Inc., Nuveen Municipal Advantage Fund, Inc., Nuveen Municipal Market Opportunity Fund, Inc., Nuveen Dividend Advantage Municipal Fund, Nuveen Dividend Advantage Municipal Fund 2 and Nuveen Dividend Advantage Municipal Fund 3 at October 31, 2010, the results of their operations and cash flows (Nuveen Municipal Advantage Fund, Inc., Nuveen Municipal Market Opportunity Fund, Inc., Nuveen Dividend Advantage Municipal Fund, Nuveen Dividend Advantage Municipal Fund 2 and Nuveen Dividend Advantage Municipal Fund 3 only) for the year then ended, the changes in their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended in conformity with U.S. generally accepted accounting principles.

Chicago, Illinois  
December 28, 2010

20 Nuveen Investments

---

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

NPP  
October 31, 2010  
Nuveen Performance Plus Municipal Fund, Inc.  
Portfolio of Investments

Principal Amount (000)	Description (1)	Optional Call Provisions (2)	Ratings (3)	Value
	Alabama – 0.1% (0.1% of Total Investments)			
	Jefferson County, Alabama, Sewer Revenue Refunding Warrants, Series 1997A:			
\$ 1,435	5.625%, 2/01/22 – FGIC Insured	12/10 at 100.00	Caa3	\$ 592,712
1,505	5.375%, 2/01/27 – FGIC Insured	12/10 at 100.00	Caa3	605,206
2,940	Total Alabama			1,197,918
	Alaska – 0.2% (0.1% of Total Investments)			
2,465	Northern Tobacco Securitization Corporation, Alaska, Tobacco Settlement Asset-Backed Bonds, Series 2006A, 5.000%, 6/01/46	6/14 at 100.00	Baa3	1,732,476
	Arizona – 2.2% (1.5% of Total Investments)			
1,000	Arizona State Transportation Board, Highway Revenue Bonds, Series 2002B, 5.250%, 7/01/22 (Pre-refunded 7/01/12)	7/12 at 100.00	AAA	1,080,830
7,780	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Airport Revenue Bonds, Series 2010A, 5.000%, 7/01/40	No Opt. Call	A+	7,971,388
	Phoenix, Arizona, Civic Improvement Corporation, Senior Lien Airport Revenue Bonds, Series 2002B:			
5,365	5.750%, 7/01/15 – FGIC Insured (Alternative Minimum Tax)	7/12 at 100.00	AA–	5,665,386
5,055	5.750%, 7/01/16 – FGIC Insured (Alternative Minimum Tax)	7/12 at 100.00	AA–	5,305,627
19,200	Total Arizona			20,023,231
	Arkansas – 0.5% (0.4% of Total Investments)			
5,080	Independence County, Arkansas, Hydroelectric Power Revenue Bonds, Series 2003, 5.350%, 5/01/28 – ACA Insured	5/13 at 100.00	N/R	3,846,881
1,000	Washington County, Arkansas, Hospital Revenue Bonds, Washington Regional Medical Center, Series 2005A, 5.000%, 2/01/35	2/15 at 100.00	Baa1	1,003,720
6,080	Total Arkansas			4,850,601
	California – 18.0% (12.1% of Total Investments)			
3,500	Alameda Corridor Transportation Authority, California, Subordinate Lien Revenue Bonds, Series 2004A, 0.000%, 10/01/25 – AMBAC Insured	10/17 at 100.00	A–	2,935,170
11,000	Anaheim Public Finance Authority, California, Subordinate Lease Revenue Bonds, Public Improvement Project, Series 1997C, 0.000%, 9/01/20 – AGM Insured	No Opt. Call	AA+	6,969,160
	California Department of Water Resources, Power Supply Revenue Bonds, Series 2002A:			

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

4,000	6.000%, 5/01/15 (Pre-refunded 5/01/12)	5/12 at 101.00	Aaa	4,375,160
3,175	5.375%, 5/01/22 (Pre-refunded 5/01/12)	5/12 at 101.00	Aaa	3,443,002
3,365	California Health Facilities Financing Authority, Health Facility Revenue Bonds, Adventist Health System/West, Series 2003A, 5.000%, 3/01/33	3/13 at 100.00	A	3,320,212
	California Health Facilities Financing Authority, Revenue Bonds, Kaiser Permanente System, Series 2006:			
5,000	5.000%, 4/01/37	4/16 at 100.00	A+	4,963,550
7,000	5.250%, 4/01/39	4/16 at 100.00	A+	7,068,670
2,380	California Infrastructure Economic Development Bank, Revenue Bonds, J. David Gladstone Institutes, Series 2001, 5.250%, 10/01/34	10/11 at 101.00	A-	2,363,864
2,330	California Municipal Finance Authority, Revenue Bonds, Eisenhower Medical Center, Series 2010A, 5.750%, 7/01/40	7/20 at 100.00	Baa1	2,367,793
3,700	California Pollution Control Financing Authority, Revenue Bonds, Pacific Gas and Electric Company, Series 2004C, 4.750%, 12/01/23 – FGIC Insured (Alternative Minimum Tax)	6/17 at 100.00	A3	3,707,733
5,000	California, General Obligation Bonds, Series 2005, 5.000%, 3/01/31	3/16 at 100.00	A1	5,070,950
6,435	California, General Obligation Refunding Bonds, Series 2002, 6.000%, 4/01/16 – AMBAC Insured	No Opt. Call	A1	7,656,556
16,000	California, Various Purpose General Obligation Bonds, Series 2007, 5.000%, 6/01/37	6/17 at 100.00	A1	16,057,120
5,000	Coast Community College District, Orange County, California, General Obligation Bonds, Series 2006C, 0.000%, 8/01/32 – AGM Insured	8/18 at 100.00	AA+	4,349,450
7,240	Desert Community College District, Riverside County, California, General Obligation Bonds, Election 2004 Series 2007C, 0.000%, 8/01/28 – AGM Insured	8/17 at 56.01	AA+	2,614,292

Nuveen Investments 21



NPP Nuveen Performance Plus Municipal Fund, Inc. (continued)  
Portfolio of Investments October 31, 2010

Principal Amount (000)	Description (1)	Optional Call Provisions (2)	Ratings (3)	Value
	California (continued)			
\$ 10,000	Golden State Tobacco Securitization Corporation, California, Tobacco Settlement Asset-Backed Bonds, Series 2003A-1, 6.750%, 6/01/39 (Pre-refunded 6/01/13)	6/13 at 100.00	AAA	\$ 11,551,900
1,500	Golden State Tobacco Securitization Corporation, California, Tobacco Settlement Asset-Backed Bonds, Series 2007A-1, 5.125%, 6/01/47	6/17 at 100.00	BBB	1,081,065
10,000	Golden State Tobacco Securitization Corporation, California, Tobacco Settlement Asset-Backed Bonds, Series 2007A-2, 0.000%, 6/01/37	6/22 at 100.00	Baa3	6,602,300
5,000	Los Angeles Community College District, California, General Obligation Bonds, Series 2007C, 5.000%, 8/01/32 – FGIC Insured	8/17 at 100.00	Aa1	5,246,350
5,500	Los Angeles Department of Water and Power, California, Waterworks Revenue Bonds, Series 2003A, 5.125%, 7/01/40 – FGIC Insured	7/12 at 100.00	AA	5,583,380
3,300	M-S-R Energy Authority, California, Gas Revenue Bonds, Citigroup Prepay Contracts, Series 2009B, 6.500%, 11/01/39	No Opt. Call	A	3,872,319
1,000	Mt. Diablo Hospital District, California, Insured Hospital Revenue Bonds, Series 1993A, 5.125%, 12/01/23 – AMBAC Insured (ETM)	12/10 at 100.00	N/R (4)	1,135,280
13,450	Ontario Redevelopment Financing Authority, San Bernardino County, California, Revenue Refunding Bonds, Redevelopment Project 1, Series 1995, 7.200%, 8/01/17 – NPFG Insured	No Opt. Call	A	15,464,676
2,325	Palmdale Community Redevelopment Agency, California, Restructured Single Family Mortgage Revenue Bonds, Series 1986D, 8.000%, 4/01/16 (Alternative Minimum Tax) (ETM)	No Opt. Call	AAA	2,999,645
4,795	Palomar Pomerado Health, California, General Obligation Bonds, Election of 2004, Series 2007A, 5.000%, 8/01/32 – NPFG Insured	No Opt. Call	A+	4,866,014
1,830	San Diego Public Facilities Financing Authority, California, Water Utility Revenue Bonds, Tender Option Bond Trust 3504, 19.188%, 2/01/33 (IF)	8/19 at 100.00	Aa2	2,501,024
2,000	San Francisco Airports Commission, California, Revenue Refunding Bonds, San Francisco International Airport, Second Series 2001, Issue 27B, 5.125%, 5/01/26 – FGIC Insured	5/11 at 100.00	A1	2,012,540

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

San Joaquin Hills Transportation Corridor  
Agency, Orange County, California, Toll Road  
Revenue Refunding Bonds, Series 1997A:

7,210	0.000%, 1/15/23 – NPFPG Insured	No Opt. Call	A	2,964,247
3,000	0.000%, 1/15/35 – NPFPG Insured	No Opt. Call	A	469,410
2,875	Tobacco Securitization Authority of Northern California, Tobacco Settlement Asset-Backed Bonds, Series 2005A-1, 4.750%, 6/01/23	6/15 at 100.00	BBB	2,715,783
5,245	Vacaville Unified School District, California, General Obligation Bonds, Series 2005, 5.000%, 8/01/30 – NPFPG Insured	8/15 at 100.00	A+	5,373,817
12,380	Walnut Valley Unified School District, Los Angeles County, California, General Obligation Refunding Bonds, Series 1997A, 7.200%, 2/01/16 – NPFPG Insured	8/11 at 103.00	AA–	13,346,383
176,535	Total California			165,048,815
	Colorado – 9.5% (6.4% of Total Investments)			
5,240	Adams 12 Five Star Schools, Adams County, Colorado, General Obligation Bonds, Series 2005, 5.000%, 12/15/24 – AGM Insured	12/15 at 100.00	AA+	5,679,007
3,000	Colorado Educational and Cultural Facilities Authority, Charter School Revenue Bonds, Peak-to-Peak Charter School, Series 2004, 5.250%, 8/15/34 – SYNCORA GTY Insured	8/14 at 100.00	A	3,019,740
10,000	Colorado Health Facilities Authority, Health Facilities Revenue Bonds, Sisters of Charity of Leavenworth Health Services Corporation, Series 2010A, 5.000%, 1/01/40	No Opt. Call	AA	10,220,800
7,660	Colorado Health Facilities Authority, Revenue Refunding and Improvement Bonds, Boulder Community Hospital, Series 1994B, 5.875%, 10/01/23 – NPFPG Insured	12/10 at 100.00	A2	7,667,507
5,860	Colorado Health Facilities Authority, Revenue Refunding Bonds, Catholic Health Initiatives, Series 2001, 5.250%, 9/01/21 (Pre-refunded 9/01/11)	9/11 at 100.00	Aa2 (4)	6,099,147
4,500	Denver City and County, Colorado, Airport System Revenue Refunding Bonds, Series 2001A, 5.500%, 11/15/16 – FGIC Insured (Alternative Minimum Tax)	11/11 at 100.00	A+	4,684,995
20,000	Denver Convention Center Hotel Authority, Colorado, Senior Revenue Bonds, Convention Center Hotel, Series 2003A, 5.000%, 12/01/33 (Pre-refunded 12/01/13) – SYNCORA GTY Insured	12/13 at 100.00	N/R (4)	22,322,200
13,055	E-470 Public Highway Authority, Colorado, Senior Revenue Bonds, Series 1997B, 0.000%, 9/01/21 – NPFPG Insured	No Opt. Call	A	7,071,632

22 Nuveen Investments



Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

Principal Amount (000)	Description (1)	Optional Call Provisions (2)	Ratings (3)	Value
	Colorado (continued)			
	E-470 Public Highway Authority, Colorado, Senior Revenue Bonds, Series 2000B:			
\$ 16,200	0.000%, 9/01/32 – NPMG Insured	No Opt. Call	A	\$ 3,857,382
33,120	0.000%, 9/01/33 – NPMG Insured	No Opt. Call	A	7,319,851
18,500	E-470 Public Highway Authority, Colorado, Toll Revenue Bonds, Series 2004A, 0.000%, 3/01/36 – NPMG Insured	No Opt. Call	A	3,349,055
755	Jefferson County School District R1, Colorado, General Obligation Bonds, Series 2004, 5.000%, 12/15/22 (Pre-refunded 12/15/14) – AGM Insured (UB)	12/14 at 100.00	AA+ (4)	877,348
3,750	Regional Transportation District, Colorado, Denver Transit Partners Eagle P3 Project Private Activity Bonds, Series 2010, 6.000%, 1/15/41	7/20 at 100.00	Baa3	3,967,350
1,330	University of Colorado Hospital Authority, Revenue Bonds, Series 1999A, 5.000%, 11/15/29 – AMBAC Insured	11/10 at 100.00	A3	1,327,540
142,970	Total Colorado			87,463,554
	District of Columbia – 1.0% (0.7% of Total Investments)			
4,545	District of Columbia Tobacco Settlement Corporation, Tobacco Settlement Asset-Backed Bonds, Series 2001, 6.250%, 5/15/24	5/11 at 101.00	BBB	4,563,362
5,000	Washington Convention Center Authority, District of Columbia, Senior Lien Dedicated Tax Revenue Bonds, Series 2007A, 4.500%, 10/01/30 – AMBAC Insured	10/16 at 100.00	A1	5,000,350
9,545	Total District of Columbia			9,563,712
	Florida – 7.0% (4.7% of Total Investments)			
1,700	Beacon Tradeport Community Development District, Miami-Dade County, Florida, Special Assessment Bonds, Commercial Project, Series 2002A, 5.625%, 5/01/32 – RAAI Insured	5/12 at 102.00	N/R	1,704,012
	Broward County Housing Finance Authority, Florida, Multifamily Housing Revenue Bonds, Venice Homes Apartments, Series 2001A:			
1,545	5.700%, 1/01/32 – AGM Insured (Alternative Minimum Tax)	7/11 at 100.00	AA+	1,552,138
1,805	5.800%, 1/01/36 – AGM Insured (Alternative Minimum Tax)	7/11 at 100.00	AA+	1,813,682
5,300	Escambia County Health Facilities Authority, Florida, Revenue Bonds, Ascension Health Credit Group, Series 2003A, 5.250%, 11/15/14	No Opt. Call	Aa1	6,077,086
1,995	Florida Housing Finance Corporation, Homeowner Mortgage Revenue Bonds, Series 2000-11, 5.850%, 1/01/22 – AGM Insured	1/11 at 100.00	AA+	1,997,574

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSR

(Alternative Minimum Tax)

4,170	Florida Housing Finance Corporation, Homeowner Mortgage Revenue Bonds, Series 2006-2, 4.950%, 7/01/37 (Alternative Minimum Tax)	1/16 at 100.00	AA+	4,230,507
7,000				