Morningstar CEF Research Reports

Morningstar evaluates funds based on five key pillars: people, process, performance, parent, and fees. Also included in the Morningstar Rating which awards stars based on risk-adjusted performance.

Reports include pertinent CEF data points, updated daily.

Analyst commentary on a fund’s suitability and overall place in a portfolio. Analysts also highlight the headline pros and cons of each fund.
Analyst discusses the managers and analysts discerning if the team has the experience and resources to successfully run the strategy.

A discussion of the shareholder friendliness of the parent and any recent actions worth noting.

Boards of directors have a fiduciary duty to shareholders and play a key role in the success or failure of a fund.
Portfolio process is discussed and compared with current holdings.

The portfolio invests at least 65% in public utility companies (electric, energy, gas, and telecommunication services). No more than 20% is in international firms. The portfolio holds about 30 to 50 securities. The portfolio is 70% equity (common and preferred) and 30% fixed income with a small portion of REITs.

Analysts are devoted to specific public utilities spaces and look for high-yielding and low P/E stocks. They also consider the regulatory environment and overall view on their sector. The fund is rebalanced between public utility sectors based on profitability views for each sector. Stocks are sold based on relative price appreciation or on a fundamental shift in a company's operations or regulatory environment. Funds are typically rated investment grade and are diversified among names, sectors, and the yield curve. Fixed-income sales are few, and the sell discipline is similar to that of the equity holdings.

The fund's current holdings are aligned with the strategy: 70% common stock, 5% preferred stock, and 25% fixed income. The fund currently holds 70% of its assets in electric and gas utilities, 25% in telecommunications, and 5% in REITs.

The top 10 equity holdings make up more than 30% of the portfolio. The largest single holding is NextEra Energy at 4% of assets. The portfolio falls into the large-capitalization value portion of the Morningstar Style Box, which is aligned with the overall strategy. The fund is currently invested mostly in domestic securities, after pulling out of many of its foreign holdings at the start of 2010 due to market uncertainty. Corporate bonds compose about 80% of the fixed-income portfolio, of which more than 90% is in investment-grade credits.
Performance, risk, and discount/premium analysis is discussed.
Fees, leverage, and distribution are analyzed.

**Fees**

<table>
<thead>
<tr>
<th>Item</th>
<th>Fund 2010 Adjusted Expense Ratio</th>
<th>0.41%</th>
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</thead>
<tbody>
<tr>
<td>TER</td>
<td>0.20</td>
<td></td>
</tr>
<tr>
<td>Interest Expense</td>
<td>0.77</td>
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<tr>
<td>Top 3 Fees</td>
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<tr>
<td>Advisory Fee</td>
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<tr>
<td>Administration Fee</td>
<td>0.08</td>
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<tr>
<td>Shareholder Reporting</td>
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<td></td>
</tr>
<tr>
<td>Fee</td>
<td>0.20</td>
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</tr>
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The fund’s 2010 adjusted expense ratio was 0.41%, placing it in the bottom half of the U.S. Hybrid (Growth & Income) group.

The fund utilizes a breakpoint fee schedule for its advisor and administrative fees, which we like. We think such breakpoint fee schedules benefit long-term shareholders. Duff & Phelps Investment Management receives 0.1% of average weekly net assets (including leverage) up to $1.5 billion and 0.5% of average weekly net assets in excess thereof. The administrator receives 0.25% of average weekly net assets up to $100 million, 0.2% from $100 million to $1 billion, and 0.1% over $1 billion. During fiscal 2009, the fund paid $1.8 million in interest on debt and $4.5 million to preferred shareholders, significantly lower than 2008 because of the redemption of preferred shares and the low interest rate on outstanding debt.

**Leverage**

- **Total Assets & Millions:** 2.5 billion
- **Net Assets & Millions:** 1.871.2
- **1980 Act Average %:** 44.3%
- **Non-FS Act %:** 6.0%

The fund has $400 million outstanding in preferred shares and $600 million in debt with a leverage ratio of 1.6. By our calculations, during fiscal 2010, the leverage was profitable.

In 2009, the fund liquidated some of its preferred shares ($600 million worth) by entering into a revolving credit facility. This has led the fund to use more debt than preferred stock (about a 60/40 ratio) because of the presently advantageous interest rates. The interest rate for the debt is based on the three-month LIBOR plus an additional fee based on the amount borrowed. During fiscal 2010, the average interest rate for the debt was 1.44%, and interest on preferred shares ranged between 0.18% and 1.58%. Investors should be aware that, although the cost of debt is relatively low, if interest rates rise, the cost of leverage will also rise as the fund has not locked in these rates long-term.

**Distributions**

This fund has a relatively high distribution that does not include distribution return of capital. The fund has a managed and level distribution policy that is reviewed by the board each quarter. It is currently set at $0.06 per share per month and has not been changed since 1986. This is a rate of 0% at the current NAV. In its 12-year history, it has used return of capital in only two fiscal years to supplement distributions; each time, by our calculations, it has never been destructive. Also, its use is typically small.

The fund has a distribution reinvestment policy that we believe is positive for investors. If the fund is trading at a premium, new shares are issued and the price used is the greater of net asset value or 95% of the market price. If it’s trading at a discount, shares are purchased in the open market.