

# 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.

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## DNP Select Income DNP

Morningstar Benchmark: S&P 500 TR  
Morningstar Category™: Utilities

**Morningstar Quantitative Rating**

**Morningstar Rating™** ★★★★★

Last Closing Price USD	10.00
Last Actual NAV USD	7.78
NAV Date	04/06/2011
Discount at NAV %	+28.53
Total Distribution Rate at NAV %	10.02
Lowest Distribution Amount USD	0.07
Distribution Freq	M
Total Assets \$ Mil	2,871.2
Net Assets \$ Mil	1,871.2
Market Cap \$ Mil	2,404.0
1940 Act Leverage %	34.83
Non-1940 Act Lev %	0.00
Avg Daily Shares Traded Mil	0.37
Inception Date	01/21/1987

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**Morningstar Analyst:** Cara Esler

**Executive Summary**  
**Process:** The overarching strategy is to generate income through high-yielding investments in the public utility sector.  
**Performance:** Because of superior security selection and good use of leverage, the fund has a strong history of outperformance, consistently beating both its peer group and benchmark over various time periods.  
**Risk:** The fund's 2009 adjusted expense ratio was 1.41%, placing it in the bottom half of the U.S. Hybrid (Growth & Income) group.  
**Managers:** The fund's management team has been together for six years, and certain managers and analysts have a stake in the fund.  
**Parent:** Duff & Phelps Investment Management Co. is the advisor and is part of Virtus Investment Partners, an enterprise of boutique investment managers. Duff & Phelps Investment Management has been in the investment advisory business for over 70 years.  
**Board:** This is one of the highest-paid boards of directors (in absolute dollar terms) that we have come across in our analysis; however, every board member owns shares, which is rarity among CEF directors.

**Role in Portfolio**  
**Niche:** This utility-heavy fund is a suitable niche holding.

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**Morningstar Opinion**

We believe this is a superior fund based on its continuous outperformance, long management tenure, and steady distribution.

The fund's investments are focused on public utility companies. (Common shares, preferred shares, and debt are all fair game.) The utilities sector has been the place to be for the past several years. Indeed, over the past 10 years, this fund has gained 7% per year, annualized. The portfolio managers have a conservative mind-set as the strategy tends to be defensive. In down markets, its investments in the utility sector provide some insulation because even when times get tough, people still need to keep the lights on and heat their homes. In up markets, the utilities sector can lag the broader market, but this fund's managers have been able to pick winning securities in both market environments. For example, during the 2009 market recovery, the fund gained 25% while the Dow Jones U.S. Utilities Index gained just 12%.

This outperformance can be attributed to a successful use of leverage and the management team. This three-person team has worked together for the past six years. Head manager Nathan Partain has been with the fund since 1996. Brooks Beittel, who has been a manager since 1992, and Daniel Petrisko, who came on board in 2004, manage the fund's fixed-income investments. Partain and Beittel also own shares in the fund.

This fund has paid a distribution of \$0.065 every month since 1996. This stability is remarkable, given the overall market's ups and downs over the years. At the current net asset value, this is a relatively high 10% distribution rate that does not include destructive return of capital.

Investors need to be aware that the long-term outperformance and steady distribution have attracted premium pricing levels to the share price. The current and three-year average premium is about 25%. If the premium collapses to zero, the share price will decline assuming the net asset value remains the same.

Analyst commentary on a fund's suitability and overall place in a portfolio. Analysts also highlight the headline pros and cons of each fund.

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**DNP Select Income DNP** Morningstar Benchmark: S&P 500 TR  
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### Management

<p>Manager: T. Brooks Beittel                  Manager Start: 01/31/1995                  Average Tenure: 11.5 Years</p> <p>Manager: Connie M. Luecke                  Manager Start: 12/31/1996                  Average Tenure: 11.5 Years</p>	<p>We like that the fund's management team has been together for six years and that managers have a stake in the fund. Head manager Nathan Partain (manager since 1996) owns more than \$100,000 in shares. Partain also manages two other CEFs: DTF Tax-Free Income DTF and Duff &amp; Phelps Utility and Corporate Bond Trust DUC.</p> <p>T. Brooks Beittel and Daniel Petrisko manage the fixed-income portion of the portfolio. Beittel (manager since 1992) owns between \$10,000 and \$50,000 in shares. Petrisko (manager since 2004) does not own shares of the fund.</p> <p>The remainder of the portfolio team is made up of analysts with areas of expertise. Deborah Jansen, team member since 2001, researches global electric and natural gas industries and does not own shares. Connie Luecke, team member since 1996, researches the global telecommunications sector and owns between \$10,000 and \$50,000 in shares. Randle Smith, team member since 1996, researches global electric and natural gas industries for the fund and owns between \$50,000 and \$100,000 in shares. Geoffrey Dybas, team member since 1996, researches REITs for the portfolio and does not own any shares.</p> <p>Each portfolio manager is paid a base salary and an incentive bonus based on investment profitability and individual contribution to the team. Performance is measured against a composite of the S&amp;P Utilities Market Price Index and the Barclays Utility Bond Index. Performance is also measured by achieving investment income targets.</p>
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Other Funds Managed  
 DTF Tax-Free Income (DTF), Duff & Phelps Util & Corp (DUC)

### Parent

<p>Fund Advisor: Duff &amp; Phelps                  Domicile: USA                  Subadvisor: —                  Address: Duff and Phelps Investment Management Co., 200 South Wacker Drive, Suite 500, Chicago, Illinois 60603, USA                  Website: <a href="http://www.dpsselectincome.com/fund.aspx">www.dpsselectincome.com/fund.aspx</a></p>	<p>Duff &amp; Phelps Investment Management Co. is the fund's advisor and is part of Virtus Investment Partners, an enterprise of boutique investment managers. Duff &amp; Phelps has been in the investment advisory business for more than 70 years. The firm manages three CEFs, and two have concentrations in the utilities sector: Duff &amp; Phelps Utility and Corporate Bond Trust DUC launched in 1993, and DTF Tax-Free Income DTF launched in 1991. All three funds use leverage.</p> <p>Duff &amp; Phelps funds are beholden to a risk-management committee that meets regularly to ensure compliance. There is an internal system that will flag any transaction that might not meet compliance rules. Duff &amp; Phelps offers an informational packet for each of its funds regarding their use of leverage, which is more than most funds offer. The packet can be found on each fund's website and includes the current use, breakdown, and rating of the current auction-rate preferred securities and remarketed preferred shares held.</p>
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### Board of Directors

<p>State of Incorporation: Maryland                  Staggered Board: Yes                  Discount Control Mech: Yes                  Tender Offer: No                  Buyback Authorization: No</p>	<p>This is one of the highest-paid boards of directors we have come across in our analysis, in absolute terms. The 12-member board was paid (in total) more than \$1.2 million during fiscal 2010 for overseeing three funds. Two directors are elected by preferred shareholders to represent their interests. The board's chairman has served since 2000 and became chairman in 2009. Every board member owns shares, aggregating to beneficial ownership of more than 270,500 shares. We believe this better aligns their interests with those of shareholders.</p> <p>There are three classes of board members staggered to serve three-year terms, and board members can be re-elected after each term. Eight directors serve on other boards, including those of public utility companies. We view this as a potential conflict of interest, as this fund invests mostly in the stocks and bonds of utility companies. The longest-serving board member has been on the board since inception, and two members were added in 2009. We like to see long-serving members and new board members to bring fresh ideas. At each quarterly meeting, the board of directors sets the monthly distribution amount for the upcoming three months; however, the fund follows a level distribution plan that has not changed since 1996. The board considers a stable distribution the best way to keep the fund's price steady. While this may be true, the fund is trading at a 30% premium to net asset value.</p>
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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.



# Morningstar CEF Research Reports

Portfolio process is discussed and compared with current holdings.

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**DNP Select Income DNP** Morningstar Benchmark: S&P 500 TR  
Morningstar Category™: Utilities

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### Process: Investment Approach

**Investment Objective:** The Fund seeks current income and long term growth of income with capital appreciation through investment in equity and fixed income securities of companies in the public utilities industry

**Sector Constraints %:** more than 65% in public utilities

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 utility 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. Bonds 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.

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### Process: Portfolio Positioning

**Morningstar Holdings Based Style Map:**

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 telecommunication, 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.

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Asset Allocation	% Assets	Long	Short	Net
Cash	2.0	0.0	2.0	
US Stock	94.6	0.0	94.6	
Non US Stock	10.3	0.0	10.3	
Bond	32.9	0.0	32.9	
Other	12.6	52.3	-39.7	

Top 10 Holdings (05/31/2011)	% Assets
Borrowings	-32.09
Auction Preferred Stock	-10.70
Other Assets Less Liabilities	-8.49
Verizon Communications Inc	4.45
Nuclear Energy, Inc.	4.44
ASST, Inc.	4.10
Xcel Energy, Inc.	3.63
Northeast Utilities	3.70
Pinnacle West Capital	3.43
Dominion Resources, Inc.	3.35

Credit Quality	% Port	% Port	
AAA	0.0	BB	8.3
AA	0.0	B	0.0
A	15.7	Below B	0.0
BBB	76.0	NR/NA	0.0

Sector Weightings	% Equity	Sector Weightings	% Bond
<b>Cyclical</b>	0.0	<b>US Government</b>	0.0
<b>Basic Metals</b>	0.0	Treasuries	0.0
<b>Consumer Cyc</b>	0.0	TIPS	0.0
<b>Financial Svc</b>	0.0	US Agency	0.0
<b>Real Estate</b>	0.0	<b>Mortgage</b>	0.0
<b>Resilient</b>	20.7	Mortgage Pass-Thru	0.0
<b>Common Sks</b>	19.3	Mortgage CMO	0.0
<b>Energy</b>	10.5	Mortgage ARM	0.0
<b>Industrials</b>	0.0	<b>Credit</b>	100.0
<b>Technology</b>	0.0	US Corporate	100.0
<b>Defensive</b>	70.3	Asset-Backed	0.0
<b>Consumer Def</b>	0.0	Convertible	0.0
<b>Healthcare</b>	0.0	Municipal	0.0
<b>Utilities</b>	70.3	Corporate Inflation-Protected	0.0
		<b>Foreign</b>	0.0
		Foreign Corporate	0.0
		Foreign Government	0.0

# Morningstar CEF Research Reports

Performance, risk, and discount/premium analysis is discussed.

## DNP Select Income DNP

Morningstar Benchmark S&P 500 TR  
Morningstar Category™ Utilities

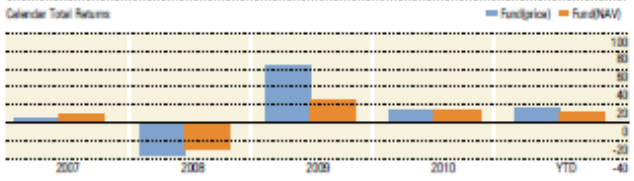
### NAV Performance Analysis

Trailing Returns Price	Total Rtn %	+/- Bmark	+/- Cat	%Risk In Cat
3 Month	4.37	11.20	6.80	—
6 Month	10.69	20.06	8.72	—
1 Year	14.50	4.41	-2.22	—
3 Year Ann.	9.11	9.10	2.37	—
5 Year Ann.	8.99	8.88	2.45	—

Because of superior security selection and good use of leverage, the fund has a strong history of outperformance, consistently beating both its peer group and benchmark over various time periods. The fund has beaten the peer group in six of the past 10 calendar years. This outperformance can be attributed to the fund's use of leverage and to its concentration in the utility sectors.

The fund also has beaten its utility benchmark, the Dow Jones US Utility Index, which is down over 2% over the latest three-year annualized period, while this fund is up 5%. It has outperformed this index in five of the past nine calendar years. We conclude that the fund managers have demonstrated an ability to pick winning securities and to utilize leverage to shareholders' advantage.

Trailing Returns NAV	Total Rtn %	+/- Cat	%Risk In Cat
3 Month	-0.35	4.66	1
6 Month	4.07	7.17	1
1 Year	16.91	3.34	50
3 Year Ann.	8.96	4.99	1
5 Year Ann.	7.06	3.11	1



### Discount / Premium

Discount / Premium %	6 Mo	1Y	3Yr
High	+32.14	+35.46	+50.17
Average	+24.59	+26.41	+26.03
Low	+18.73	+18.73	-13.55
Z-Statistic	1.39	0.52	0.30

We believe the fund's consistent outperformance and steady distribution are the reasons for its persistent premium pricing. The fund is currently trading at a 26% premium. The three-year average

premium is 25%, and the six-month average premium is 24%. Over the past three years, the shares have traded between a 13% discount and a 50% premium.

### Risk & Return

Morningstar Rating	Return	Risk	Rating
3 Year	Above Avg	Below Avg	★★★★
5 Year	Above Avg	Below Avg	★★★★
10 Year	—	—	—
Overall	Above Avg	Below Avg	★★★★

This fund takes risks through sector concentration and the use of leverage, but it has still produced excess returns for investors. Sector concentration in utilities has paid off over the past 10 years. The fund's uses both auction-rate preferred shares and debt. In times of volatility, the fund will remain

leveraged because moving in and out of leverage in the short term would only generate higher fees for shareholders. During such times, the fund becomes more defensive by altering its equity portfolio holdings. Investors have been compensated for this risk with impressive performance.

Volatility Ratios	3 Yr NAV	5 Yr NAV	Risk vs Index	3 Year	5 Year
Standard Deviation	19.57	17.29	Alpha NAV	7.81	6.82
Mean	8.22	7.76	Beta NAV	0.72	0.75
Sherpe Ratio	0.50	0.43	R-Squared NAV	62.68	60.57
Sortino Ratio	0.64	0.55	Treynor Ratio NAV	11.15	8.20

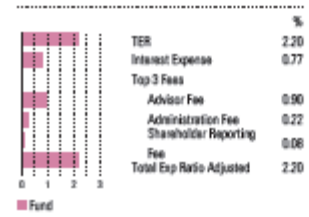
# Morningstar CEF Research Reports

Fees, leverage, and distribution are analyzed.

## DNP Select Income DNP

Morningstar Benchmark: S&P 500 TR  
Morningstar Category™: Utilities

### Fees



The fund's 2010 adjusted expense ratio was 1.41%, 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 0.6% 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 \$12.9 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 \$ Mil	2,871.2
Net Assets \$ Mil	1,871.2
1940 Act Leverage %	34.83
Non-1940 Act Lev %	0.00

The fund has \$400 million outstanding in preferred shares and \$600 million in debt with a leverage ratio of 1.8. 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 mar-

ket 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 now, if interest rates rise, the cost of leverage will also rise as the fund has not locked in these rates long-term.

### Distributions

Distribution History	2008	2010	YTD
Income	0.5250	0.6747	0.4850
S/T Cap Gain	0.0000	0.0000	0.0000
L/T Cap Gain	0.0000	0.0000	0.0890
Return of Capital	0.2551	0.1053	0.1410
<b>Total</b>	<b>0.7801</b>	<b>0.7800</b>	<b>0.7150</b>

This fund has a relatively high distribution that does not include destructive 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 \$0.065 per share per month and has not been changed since 1996. This is a rate of 10% at the current NAV. In its 12-year history, it has used return of capital in only two fiscal years to supplement distributions; and each time, by our

calculations, it has never been 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.

