

Explanation of Closed-End Fund Distributable Cash Flow and Income Taxation

Determining Distributable Cash Flow (“DCF”)

Distributable Cash Flow (“DCF”) is income from investments less expenses. The calculation of DCF, a discussion of changes to key DCF components, and a reconciliation of differences between DCF and income and expense amounts for financial reporting purposes are included in quarterly reports to stockholders.

Income from investments for DCF purposes includes:

- Cash dividends and distributions from equity investments, net of foreign taxes withheld
- Paid-in-kind distributions
- Interest from debt investments, net of amortization of premium or discount
- Premiums received from sales of covered call options, net of amounts paid to buy back out-of-the-money options

Expenses for DCF purposes include:

- Current or anticipated operating expenses
- Leverage costs, including interest expense, distributions to preferred stockholders, realized and unrealized gains (losses) on interest rate swap settlements, and other recurring leverage expenses
- Current income taxes paid on our net investment income, in addition to foreign taxes, if any. Taxes incurred from realized gains on the sale of investments, expected tax benefits and deferred taxes are not included in DCF.

Reconciliation of DCF to the Statement of Operations

The difference between income from investments in the DCF calculation and investment income as reported in the Statement of Operations is reconciled as follows:

- The Statement of Operations, in conformity with U.S. generally accepted accounting principles (“GAAP”), recognizes distribution income from MLPs and common stock on their ex-dates, whereas the DCF calculation may reflect distribution income on their pay dates
- GAAP recognizes that a significant portion of the cash distributions received from MLPs and other investments are characterized as a return of capital and therefore excluded from investment income, whereas the DCF calculation includes the return of capital
- Distributions received from investments in the DCF calculation include the value of dividends paid-in-kind (additional stock or MLP units), whereas such amounts are not included as income for GAAP purposes
- DCF includes distributions related to direct investments when the purchase price is reduced in lieu of receiving cash distributions
- Amortization of premium or discount for all securities is calculated using the yield to worst methodology for GAAP purposes while yield to call is used in calculating amortization for long-dated hybrid securities in the DCF calculation
- Net premiums on options written (premiums received less amounts paid to buy back out of the money options) with expiration dates during our fiscal quarter are included in the DCF calculation, whereas GAAP recognizes the net effect of options written as realized and unrealized gains (losses)

The treatment of expenses in the DCF calculation also differs from what is reported in the Statement of Operations. In addition to the total operating expenses, including fee waiver, as disclosed in the Statement of Operations, the DCF calculation reflects interest expense, realized and unrealized gains (losses) on interest rate swap settlements, distributions to preferred stockholders, other recurring leverage expenses, as well as taxes paid on net investment income.

Taxation of the Closed-End Funds

The closed-end funds invest in partnerships that generally have cash distributions in excess of their income for accounting and tax purposes. Accordingly, the distributions include a return of capital component for accounting and tax purposes which result in lower income recognized by the fund but also a lower cost basis. The unrealized gain or loss in the funds is the difference between the fair value at the date of the financial statements and its cost, and reflects the amount of gain that would be realized for financial statement purposes if the investments were sold at fair value.

TYG and NTG, as corporations, are obligated to pay federal and state income tax on its taxable income. Tax payments are owed by a fund for the year based on taxable income, offset by any net operating losses, and can be funded from investment earnings, fund assets or borrowings. The Statement of Assets & Liabilities for TYG and NTG reflects a net deferred tax liability (asset) primarily due to the unrealized gain (loss) in the portfolio. A current tax liability (if any) reflects the accrual for taxes owed by the fund for the year.

NDP, TTP and TPZ each qualify as a regulated investment company ("RIC") and hence must distribute 90% of its investment company taxable income (ordinary income and short-term capital gains) in addition to meeting certain asset diversification requirements. Each of these funds generally will distribute all of its investment company taxable income and long-term capital gains to avoid federal income taxes. If, however, they elect to retain any capital gains, they will be subject to federal income taxes. The payment of those taxes will flow-through to stockholders as a tax credit to apply against their income tax payable on the deemed distribution of the retained capital gain.

In addition, they are subject to a 4% non-deductible federal excise tax on certain undistributed income unless the fund makes sufficient distributions to satisfy the excise tax requirement.

Taxation of the Closed-End Fund Distributions

For funds taxed as C-Corporations (TYG and NTG):

The taxability of the distributions you receive depends on whether the fund has annual earnings and profits ("E&P"). E&P is primarily comprised of the taxable income (loss) from MLPs, fund operating expenses, net realized gains (losses) and certain specified adjustments as reported on annual K-1s. If the fund has E&P, it is first allocated to the preferred shares and then to the common shares. In the event the fund has E&P allocated to its common shares, all or a portion of the fund's distributions will be taxable at the Qualified Dividend Income ("QDI") rate, assuming various holding requirements are met by the stockholder. The QDI rate is variable based on the taxpayer's taxable income. Distributions in excess of E&P are return of capital ("ROC"), which is not taxable and reduces the stockholder's cost basis.

For Regulated Investment Companies ("RICs") (NDP, TTP, and TPZ):

Distributions paid on common shares will generally consist of: (i) investment company taxable income ("ICTI") which includes ordinary income net of deductions plus any short-term capital gains in excess of net long-term capital losses; (ii) long-term capital gain (net gain from the sale of a capital asset held longer than 12 months over net short-term capital losses) and (iii) ROC. ICTI will be designated as dividend income, a portion of which may be taxable as QDI to the extent of any QDI received from our investment in common stocks (assuming various holding requirements are met by the stockholder). The QDI and long-term capital gain tax rates are variable based on the taxpayer's taxable income. Distributions in excess of ICTI and long-term capital gain are ROC, which is not taxable and reduces the stockholder's cost basis.

Disclaimer:

Nothing contained herein should be construed as tax advice; consult your tax advisor for more information. Furthermore, you may not rely upon any information herein for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code.