

AUDIT COMMITTEE CHARTER

1. Audit Committee Membership and Qualifications:
 - A. The Audit Committee shall consist of at least three members appointed by the Board. The Board may replace members of the Audit Committee for any reason.
 - B. No member of the Audit Committee shall be an "interested person" of the Fund, as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended, nor shall any member receive any compensation from the Fund except compensation for service as a member of the Board or a committee of the Board. Each member must otherwise be "independent" under the rules of the NYSE¹ and the rules adopted under Section 301 of the Sarbanes-Oxley Act of 2002 (the "2002 Act").
 - C. Each member of the Audit Committee must be "financially literate" (or shall become so within a reasonable time after appointment to the Audit Committee), and one member must have "accounting or related financial management expertise," as determined by the Board in its business judgment.
 - D. The Board also must annually determine whether one or more members of the Audit Committee is an "audit committee financial expert" ("ACFE"), within the meaning of the rules adopted and implemented by the SEC under Section 407 of the 2002 Act, and whether such ACFE is "independent." For purposes of this finding only, in order to be considered "independent," any such ACFE may not, other than in his capacity as a member of the Audit Committee, the Board or any other Board committee, accept directly or indirectly any consulting, advisory or other compensatory fee from the Fund. If the Board has determined that a member of the Audit Committee is an ACFE, it may presume that such member has accounting or related financial management expertise. Notwithstanding any designation as an ACFE, each member of the Audit Committee is expected to contribute significantly to the work of the Audit Committee. Designation as an ACFE will not increase the duties, obligations or liability of the designee beyond the duties, obligations and liability otherwise imposed on the designee as a member of the Audit Committee of the Board. Committee is an ACFE, it may presume that such member has accounting or related financial management expertise. Notwithstanding any designation as an ACFE, each member of the Audit Committee is expected to contribute

¹ NHF is NYSE-listed and therefore this joint charter incorporates the more stringent requirements of the NYSE Corporate Governance Standards as they pertain to the audit committees of registered closed-end management companies.

significantly to the work of the Audit Committee. Designation as an ACFE will not increase the duties, obligations or liability of the designee beyond the duties, obligations and liability otherwise imposed on the designee as a member of the Audit Committee of the Board.

2. The purposes of the Audit Committee are to:
 - A. oversee the accounting and financial reporting processes of the Fund and the audits of the Fund's financial statements;
 - B. assist Board oversight of (i) the integrity of the Fund's financial statements, (ii) the Fund's compliance with legal and regulatory requirements, (iii) the independent auditors' qualifications and independence and (iv) the performance of the Fund's internal audit function and the independent auditors; and
 - C. with respect to NYSE- listed Funds, prepare the report required by Item 407(d)(3)(i) of Regulation S-K to be included in the Fund's annual proxy statement.
3. Role and Responsibilities of the Audit Committee:
 - A. The function of the Audit Committee is oversight; it is Fund management's responsibility to maintain appropriate systems for accounting and internal control over financial reporting and the independent auditors' responsibility to plan and carry out a proper audit. Specifically, the Fund's management is responsible for (i) preparation, presentation and integrity of the Fund's financial statements, (ii) maintenance of appropriate accounting and financial reporting principles and policies and (iii) maintenance of internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for planning and carrying out audits consistent with applicable legal and professional standards and the terms of their engagement letter.
 - B. Although the Audit Committee is expected to take a detached and questioning approach to the matters that come before it, the review of the Fund's financial statements by the Committee is not an audit, nor does the Committee's review substitute for the responsibilities of the Fund's management for preparing, or the independent auditors for auditing, the financial statements. In fulfilling their responsibilities hereunder, it is recognized that members of the Audit Committee are not employees of the Fund and are not, and do not represent themselves to be, accountants or auditors by profession. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures.

- C. Each member of the Audit Committee shall be entitled to rely on the (i) integrity of those persons and organizations within and outside the Fund from which he or she receives information and (ii) accuracy of the financial and other information provided to the Committee by such persons and organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board). In addition, the evaluation of the Fund's financial statements by the Audit Committee is not of the same scope as, and does not involve the extent of detail as, audits performed by the independent auditors, nor does the Audit Committee's evaluation substitute for the responsibilities of the Fund's management for preparing, or the independent auditors for auditing, the financial statements.
4. To carry out its purposes, the Audit Committee shall have the following duties and powers:
- A. to have direct responsibility for the appointment, compensation, retention and oversight of the Fund's independent auditors and, in connection therewith, to review and evaluate matters potentially affecting the independence and capabilities of the auditors;
 - B. to at least annually, obtain and review a report by the independent auditors describing: (i) the independent auditing firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) (to assess the independent auditors' independence) all relationships between the independent auditors and the Fund; and to evaluate the independent auditors' qualifications, performance and independence, including the review and evaluation of the lead partner of the independent auditors, taking into account the opinions of Fund management and the internal auditors; and to further consider whether, in order to assure continuing auditor independence, there should be regular rotation of the lead audit partner or the audit firm itself, and to present conclusions of the review to the Board;
 - C. to meet with the Fund's independent auditors, including separate meetings as necessary, to: (i) review the arrangements for and scope of the annual audit and any special audits; (ii) review with the independent auditors any difficulties the auditors encountered in the course of the audit work, including any restrictions on their activities or access to requested information and any significant disagreements with Fund management; (iii) review all critical accounting policies and practices applied by the Fund in preparing its financial statements; (iv) discuss any accounting adjustments noted or proposed by the independent auditors that were "passed" as immaterial or otherwise;

(v) any communications between the audit team and the independent auditing firm's national office respecting auditing or accounting issues presented by the engagement; (vi) review any material written communications between the independent auditors and the Fund, including any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditors to the Fund, report or recommendation on internal controls, schedule of unadjusted differences, engagement letter and independence letter; (vii) review the responsibilities, budget and staffing of the internal audit function and (viii) review the form of report the independent auditors propose to render to the Board and Fund shareholders;

- D. to review (i) major issues regarding accounting principals and financial statement presentations, including any significant changes in the Fund's selection or application of accounting principles, and major issues as to the adequacy of the Fund's internal controls and any special audit steps adopted in light of material control deficiencies; (ii) analyses prepared by Fund management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effect of alternative GAAP methods on financial statements; and (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Fund;
- E. to (i) review and pre-approve (including associated fees) all audit and other services to be provided by the independent auditors to the Fund and all non-audit services to be provided by the independent auditors to Highland or any entity controlling, controlled by or under common control with Highland (an "Adviser Affiliate") that provides ongoing services to the Fund, if the engagement relates directly to the operations and financial reporting of the Fund and (ii) establish, to the extent permitted by law and deemed appropriate by the Audit Committee, detailed pre-approval policies and procedures for such services;
- F. to review and consider whether the independent auditors' provision of any non-audit services to the Fund, Highland or an Adviser Affiliate not pre-approved by the Audit Committee are compatible with maintaining the independence of the independent auditors;
- G. to review and discuss: (i) the annual audited financial statements with management and the independent auditors, including management's discussion of Fund performance; (ii) the semi-annual financial statements, including management's discussion of Fund performance, if any, with management and the independent auditors; and (iii) with respect to NYSE-listed Funds, the type and presentation of information to be included in any earnings press releases (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP

information), including any financial information and earnings guidance provided to analysts and rating agencies (which discussions may be general in nature, such as the types of information to be disclosed and the type of presentation to be made), provided that each earnings release or guidance need not be discussed in advance;

- H. to set clear hiring policies for employees or former employees of the independent auditors, if and to the extent a Fund intends to have employees;
- I. to establish procedures for the receipt, retention, and treatment of complaints received by the Fund relating to accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Fund or Highland, the administrator, the Distributor or any other provider of accounting related services for the Fund, of concerns regarding questionable accounting or auditing matters pertaining to the Fund;
- J. to periodically meet separately with the Fund's management, with internal auditors (or other personnel responsible for the internal audit function) and with the independent auditors;
- K. to discuss policies with respect to risk assessment and risk management, including guidelines and policies governing the process by which senior management of the Fund assesses and manages the Fund's exposure to risk and to discuss the Fund's major financial risk exposures and assess the steps management has taken to monitor and control such exposures;
- L. to review with the Fund's principal executive officer and/or principal financial officer any reports received in connection with required certifications on Form N-CSR, any significant deficiencies in the design or operation of internal control over financial reporting or material weaknesses therein and any reported evidence of fraud involving management or other employees who have a significant role in the Fund's internal control over financial reporting;
- M. to report its activities regularly to the Board, including any issues that arise with respect to (i) the quality or integrity of the Fund's financial statements, (ii) the Fund's compliance with legal or regulatory requirements, or (iii) the performance and independence of the independent auditors (including the Audit Committee's conclusions with respect to 4(b) above) and to make such recommendations with respect to the above and other matters as the Audit Committee may deem necessary or appropriate;
- N. to prepare and review with the Board an annual performance evaluation of the Audit Committee, conducted in such manner as the Committee deems appropriate, which evaluation must compare the

performance of the Audit Committee with the requirements of this Charter; and

- O. to perform such other functions and to have such powers as may be necessary or appropriate in the efficient and lawful discharge of the powers provided in this Charter.
5. The Audit Committee shall meet on a regular basis (typically, twice annually) and is empowered to hold special meetings, as circumstances require. The Audit Committee may request that non-members attend a meeting of the Audit Committee or meet with any members of, or consultants to, the Audit Committee. Members of the Audit Committee may participate in a meeting of the Audit Committee by means of conference call, or similar communications equipment by means of which all persons participating in the meeting can hear each other, and may act by written consent to the extent permitted by applicable law, any applicable rules of a self-regulatory organization such as the NYSE, and the Fund's by-laws.
 6. The Audit Committee shall have the authority to engage independent counsel and other advisers, as it determines necessary, to carry out its duties. The Fund shall provide appropriate funding, as determined by the Audit Committee, for payment of compensation to (a) the independent auditors for preparing or issuing an audit report or performing other audit, review or attest services for the Fund or (b) any advisers employed by the Audit Committee. The Fund shall also provide appropriate funding for ordinary administrative expenses of the Audit Committee that are necessary and appropriate in carrying out its duties.
 7. The Audit Committee shall review and reassess the adequacy of this Charter at least annually and recommend any changes to the Board. The Board also shall review and approve this Charter at least annually.
 8. The Audit Committee, in its discretion, may delegate all or a portion of its duties and responsibilities to a subcommittee of the Audit Committee, including the authority to pre-approve any audit or non-audit services to be performed for the Fund, Highland or any Adviser Affiliate by the independent auditors, provided any such approvals are presented to the Audit Committee at its next scheduled meeting.
 9. With respect to any subsequent changes to the composition of the Audit Committee, and otherwise approximately once each year, a NYSE-listed Fund shall provide the NYSE with a written affirmation regarding, among other things:
 - A. any determination that the Board has made regarding the independence of directors pursuant to the NYSE rules or applicable law;
 - B. the financial literacy of the Audit Committee members;

- C. the determination that at least one of the Audit Committee members has accounting or related financial management expertise; and
- D. the annual review and reassessment of the adequacy of this Charter.