

Report of Organizational Actions Affecting Basis of Securities

OMB No. 1545-2224

► See separate instructions.

Part I Reporting Issuer

1 Issuer's name Highland Dividend Equity Fund		2 Issuer's employer identification number (EIN) 45-3267155	
3 Name of contact for additional information Highland Funds	4 Telephone No. of contact 1-877-665-1287	5 Email address of contact Info@HighlandFunds.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact 200 Crescent Court, Suite 700		7 City, town, or post office, state, and Zip code of contact Dallas, TX 75201	
8 Date of action 01/25/2016		9 Classification and description Non-Dividend Distributions Paid in 2016	
10 CUSIP number See Attachment	11 Serial number(s) N/A	12 Ticker symbol See Attachment	13 Account number(s) N/A

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ► Highland Dividend Equity Fund paid non-taxable Return of Capital distributions to its shareholders per the attached schedule.

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ► The amount of non-taxable Return of Capital, on the attached schedule, represents an adjustment in the shareholders' tax basis in their shares held.

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ► The tax basis of the shareholders' shares is decreased by the per share amount of non-taxable Return of Capital, on the attached schedule, multiplied by the number of shares the shareholder owns.

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ Pursuant to IRC Sec. 301(c)(1), the portion of a distribution, which is a dividend (as defined in IRC Sec. 316), is includible in gross income. Pursuant to IRC Sec. 301(c)(2), the portion of a distribution, which is not a dividend, shall be applied against and reduce the adjusted tax basis of the stock.

18 Can any resulting loss be recognized? ▶ No loss will be recognized as a result of any non-taxable Return of Capital. A loss may be realized upon the disposition of shares.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ Pursuant to IRC Sec. 6045, brokers are required to reflect these adjustments in cost basis reporting for covered securities. If a broker is not required to provide cost basis to a particular shareholder, the cost basis of the shareholder's shares should be adjusted as of the distribution date to reflect the Return of Capital described above. The final amount of taxable dividends and non-taxable Return of Capital (i.e. non-dividend distributions) will be reported to shareholders on their 2016 Form 1099-DIV.

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ▶

Date ▶ 2/2/2017

Print your name ▶ BRIAN MITTS

Title ▶ TREASURER

Paid Preparer Use Only

Print/Type preparer's name

Peter Garrity

Preparer's signature

Date

2/2/17

Check ☐ if self-employed

PTIN

P01063407

Firm's name ▶ State Street Corporation

Firm's EIN ▶ 04-1867445

Firm's address ▶ One Iron Street, Boston, MA 02210

Phone no. 617-662-3975

Send Form 8937 (including accompanying statements) to: Department of the Treasury, Internal Revenue Service, Ogden, UT 84201-0054

2016 Distributions - Class A

Share Class	Part 1, Box 10	Part 1, Box 12	Part II, Boxes 14, 15, 16					
	CUSIP Number	Ticker Symbol	Record Date	Ex Date	Payable Date	Per Share Distribution	Per Share Return of Capital	Per share Taxable Dividend
Class A	43090E266	HDFAX	01/22/2016	01/22/2016	01/22/2016	0.106496000	0.031789056	0.074706944

2016 Distributions - Class C

Share Class	Part 1, Box 10	Part 1, Box 12	Part II, Boxes 14, 15, 16					
	CUSIP Number	Ticker Symbol	Record Date	Ex Date	Payable Date	Per Share Distribution	Per Share Return of Capital	Per share Taxable Dividend
Class C	43090E258	HDFCX	01/22/2016	01/22/2016	01/22/2016	0.098670000	0.029452995	0.069217005

2016 Distributions - Class Y

Share Class	Part 1, Box 10	Part 1, Box 12	Part II, Boxes 14, 15, 16					
	CUSIP Number	Ticker Symbol	Record Date	Ex Date	Payable Date	Per Share Distribution	Per Share Return of Capital	Per share Taxable Dividend
Class Y	43090E233	HDFYX	01/22/2016	01/22/2016	01/22/2016	0.113860000	0.033987210	0.079872790