NEXPOINT

Q1 Fund Commentary

NexPoint Merger Arbitrage Fund

First Quarter Returns

The NexPoint Merger Arbitrage Fund (the "Fund") (Class Z shares) returned 1.80% in the first quarter of 2021. In comparison, the Barclays Aggregate Bond Index returned -3.37%, the S&P Merger Arbitrage Index returned 1.89%, the HFRI Merger Arbitrage Index returned 4.64%, and the S&P 500 returned 6.17%.

Market Commentary

Markets continued to move higher in the first quarter as the COVID-19 vaccines were administered and the economy made further strides to fully reopen. Deal flow was strong in the first quarter and has been robust for 2 straight quarters now. We think that there was pent-up demand built for M&A during several pandemic-struck quarters in 2020 that is now being released. We would also note that the pick-up in deal flow has corresponded with a widening of 10-year treasury yields over the past 2 quarters (and was particularly pronounced in Q1). We think that periods of rising interest rates tend to be correlated with a stronger macro backdrop which in turn breeds stronger business confidence and merger activity. The first quarter was not without a few hiccups in the market, and we noticed a wave of speculative fever in the early months of the year which in turn seemed to trigger a rapid wave of de-risking among institutional players. Perhaps the quintessence of this development was captured in the epic movement in the shares of GameStop (GME) which at one point had risen over 1,000% amidst a speculative frenzy, before collapsing in the coming weeks all the way back to where they had been trading when the mania began. Interestingly, we noticed that the risk-off trade that occurred in late January had a temporary influence over a handful of merger arb deal spreads, which can sometimes happen when there is broad-based selling in the market.

Another area where animal spirits were clearly in full effect was in the SPAC (special purpose acquisition company) market. SPACs had already been on a tear in late 2020 and were running very hot coming into 2021, with most SPACs trading at

Top 10 Deals (Target/ Acquirer) as of 3/31/21*

HMS Holdings (HMSY) / Veritas Capital	13.7%
NIC (EGOV) / Tyler Technologies (TYL)	7.3%
RealPage (RP) / Thomas Bravo	7.1%
G4S (GFS LN) / Allied Universal Security Systems	6.1%
Glu Mobile (GLUU) / Electronic Arts (EA)	4.7%
Michaels (MIK) / Apollo	4.5%
Varian Medical Systems (VAR) / Siemens Healthineers (SHL GR)	4.4%
Coca-Cola Amatil (CCL AU) / Coca3-Cola European Partners (CCEP)	3.9%
Five Prime Therapeutics (FPRX) / Amgen (AMGN)	3.7%
RSA Insurance Group (RSA LN) / Intact Financial Group (IFC CN) & Tryg (TYRH DC)	3.6%

*Holdings are subject to change

a premium to the cash held in their respective trust accounts. For this reason (and also due to the proliferation of traditional merger arbitrage positions that were becoming available to invest in) we had meaningfully reduced our positioning in SPACs from ~16% of the Fund at the end of the third quarter of 2020 to just ~5% by the end of the year.[1] As it turned out, SPACs kept running in January, fueling a deluge of new SPAC issuances. 2020 had already been a record year for SPAC issuance in which more capital had been raised in SPACs then in the past 10 years combined; yet in the first 3 months of 2021 the market had already eclipsed the annual record set in 2020![2] However, by mid-February the SPAC market was showing cracks and sold off violently through the end of March. Clearly the sheer volume of supply coupled with a few lackluster deals and a risk-off mentality was enough to bring the market back to positive yields. We kept our exposure low to the ground throughout all of this and we did have several SPACs in our portfolio announce acquisitions that made keeping some exposure worthwhile. We took advantage of the sell-off in late March to opportunistically rebuild some exposure with select SPACs that were trading at attractive levels and ended the quarter with ~8% of the Fund invested in SPACs.

First Quarter Performance Commentary

The Fund's 1.80% return in the first quarter outpaced the Barclays Aggregate Bond Index which returned -3.37% and was mostly in-line with the S&P Merger Arbitrage Index which returned 1.89%. However, the fund lagged the HFRI Merger Arbitrage Index and the S&P 500 which returned 4.64% and 6.17%, respectively. On a month-by-month basis the Fund returned 0.85%, 0.50%, and 0.49% in the months of January, February, and March, respectively. Year to date the Fund's standard deviation is 0.7% and its Sharpe ratio is 2.50.

The biggest contributor to the Fund's performance in the first quarter was its position in HMS Holdings (HMSY), which was acquired in early April by Gainwell Technologies (a portfolio company of Veritas Capital). The position contributed over ~0.15% to returns in the quarter. Additionally, the acquisition of Aerojet Rocketdyne (AJRD) by Lockheed Martin (LMT) as well as the acquisition of Extended Stay America (STAY) by Starwood and Blackstone contributed over ~0.10% to performance, each. The acquisition of DuPont's Nutrition & Biosciences business by International Flavors & Fragrances (IFF) detracted from returns by ~-0.25%. We remain encouraged by the amount of M&A activity going on in the markets which creates an attractive setup for merger arbitrage funds. However, we remain mindful that the biggest driver of returns for the Fund will ultimately be deal selection and we remain dedicated to our absolute return philosophy.

Conclusion

We would like to thank our shareholders for their continued support of the fund. We take our fiduciary responsibilities very seriously and continuously strive to provide our shareholders with high-quality performance.

Share Class[3] (As of 3/31/21)	YTD	1-YR	3-YR	5-YR	ITD*
Class A	1.73	10.98	8.18	6.63	6.90
Class A (w/load)	-3.84	4.89	6.16	5.44	5.93
Class C	1.55	10.26	7.45	5.90	6.31
Class C (w/load)	0.55	9.26	7.45	5.90	6.31
Class Z	1.80	11.39	8.55	6.93	7.14
Barclays Agg Bond Index	-3.37	0.71	4.65	3.10	2.85

Sharpe Ratio[4] (As of 3/31/21)	1- Year	3-Year	5-Year	ITD*
NexPoint Merger Arb	5.49	2.07	1.53	1.66
HFRI Merger Arb	4.28	0.73	0.75	0.78
Barclays Agg Bond Index	0.17	0.91	0.60	0.61
S&P 500	3.24	0.83	1.02	0.87

*1/20/2015

Disclosures

The performance data quoted here represents past performance and is no guarantee of future results. Investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please call 833-697-7253.

FEES AND EXPENSES
Gross: Class A: 3.70%, Class C: 4.35%, Class Z: 3.35%; Net: Class A: 2.77%, Class C: 3.42%, Class Z:2.42%
Class A Max Sales Charge: 5.50%. Class C Contingent Deferred Sales Charge ("CDSC") is 1% within the first year from each purchase. Performance results reflect the contractual waivers and/or reimbursements of fund expenses by the Advisor. Absent this limitation, performance results would have been lower. The Expense Cap will continue through at least October 31, 2021 and may not be terminated prior to this date without the action or consent of the Fund's Board of Trustees.

RISK CONSIDERATIONS
Before investing in the Fund, you should carefully consider the Fund's investment objectives, risks, charges and expense. For a copy of a prospectus or summary prospectus, which contains this and other information, please visit our website at nexpoint.com or call 1-833-697-7253. Please read the fund prospectus carefully before investing.

On May 12, 2016, the Predecessor Fund transferred its assets to the Fund in exchange for the Fund's Class Z shares. The investment policies, objectives, guidelines and restrictions of the Fund are in all material respects equivalent to those of the Predecessor Fund. In addition, the Predecessor Fund's portfolio manager is the current portfolio manager of the Fund. As a mutual fund registered under the 1940 Act, the Fund is subject to certain restrictions under the 1940 Act and the Internal Revenue Code of 1986, as amended (the "Code") to which the Predecessor Fund was not subject. Had the Predecessor Fund been registered under the 1940 Act and been subject to the provisions of the 1940 Act and the Code, its investment performance could have been adversely affected, but these restrictions are not expected to have a material effect on the Fund's investment program.

Derivatives Risk. Derivatives, such as futures and options, are subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. Derivatives also expose the Fund to the credit risk of the derivative counterparty. Derivative contracts may expire worthless and the use of derivatives may result in losses to the Fund. **Leverage Risk.** Leverage may increase the risk of loss, cause fluctuations in the market value of the Fund's portfolio to have disproportionately large effects or cause the NAV of the Fund generally to decline faster than it would otherwise. **Micro, Small and Mid-Cap Securities Risk**. Investments in securities of companies with micro, small or medium capitalizations involve certain risks that may differ from, or be greater than, those for larger companies, such as higher volatility, lower trading volume, fewer business lines and lack of public information. **Non-Diversification Risk.** As a non-diversified fund, the Fund may invest a larger portion of its assets in the securities of one or a few issuers than a diversified fund. A non-diversified fund's investment in fewer issuers may result in the fund's shares being more sensitive to the economic results of those issuers. An investment in the Fund could fluctuate in value more than an investment in a diversified fund. **Non-U.S. Securities Risk.** Investments in securities of non-U.S. issuers involve certain risks not involved in domestic investments (for example, expropriation or political or economic instability). **Short Sales Risk.** The risk of short sales theoretically involves unlimited loss potential since the market price of securities sold short may continuously increase. **Hedging Risk.** Although intended to limit or reduce investment risk, hedging strategies may also limit or reduce the potential for profit. There is no assurance that hedging strategies will be successful.

Index Definitions:
Index returns assume reinvestment of all dividends and distributions, if any. Indices are unmanaged, have no fees or costs and are not available for investment. The performance of the indices may be materially different from the Fund's performance. In addition, the Fund's holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent an appropriate benchmark to compare a fund's performance, but rather are disclosed to allow for comparison of the Fund's performance to that

of certain well-known and widely recognized indices. It is not possible to invest directly in an index.
Barclays US Aggregate Index. Barclays Capital Aggregate Bond Index, which used to be called the "Lehman Aggregate Bond Index," is a broad base index, maintained by Barclays Capital, which took over the index business of the now defunct Lehman Brothers, and is often used to represent investment grade bonds being traded in United States. Index funds and exchange-traded funds are available that track this bond index
S&P 500 Index. S&P 500 Index is an index of a basket of 500 stocks designed to provide a broad snapshot of the overall U.S. equity market. Criteria for inclusion: U.S. Company, market capitalization must be in excess of US$ 3 billion, public float of at least 50%, financial viability, adequate liquidity and reasonable price, sector balance, and company type. Ordinary cash dividends are applied on the ex-date in calculating the total return series. "Special dividends" are those dividends that are outside of the normal payment pattern established historically by the issuing corporation. The total return index series reflect both ordinary and special dividends.
HFRI Merger Arbitrage Index. The HFRI Merger Arbitrage Index consists of strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction. Merger Arbitrage involves primarily announced transactions, typically with limited or no exposure to situations which pre-, post-date or situations in which no formal announcement is expected to occur. Opportunities are frequently presented in cross border, collared and international transactions which incorporate multiple geographic regulatory institutions, with typically involve minimal exposure to corporate credits. Merger arbitrage strategies typically have over 75% of positions in announced transactions over a given market cycle.
S&P Merger Arbitrage Index. The S&P Merger Arbitrage Index seeks to provide a risk arbitrage strategy that exploits commonly observed price changes associated with a global selection of publicly announced mergers, acquisitions and other corporate reorganizations. Historically, the index has exhibited market neutral characteristics, lower volatility compared to the S&P 500, and a low correlation to S&P 500 returns.

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

This information was prepared by the Adviser based on its experience in the industry and on assumptions of fact and opinion as to future events which the Adviser believed to be reasonable when made. There can be no assurance that the Adviser and/or the Fund will be as successful as these earlier investments. Prior investment returns are not indicative of future results. It should not be assumed that investment recommendations made in the future will be profitable or will equal the performance of the securities included herein.

This market commentary contains information about prior investments made by the Adviser of the Fund. This information was prepared by the Adviser based on its experience in the industry and on assumptions of fact and opinion as to future events which the Adviser believed to be reasonable when made. There can be no assurance that the Adviser and/or the Fund will be as successful as these earlier investments. Prior investment returns are not indicative of future results. It should not be assumed that investment recommendations made in the future will be profitable or will equal the performance of the securities included herein.

Only eligible investors may purchase Class Z Shares. Please refer to the prospectus for information and conditions.

The advisor to the Fund is Highland Capital Management Fund Advisors, L.P.

HFM US Performance Awards 2020 are award annually and to be eligible for an award, funds entering any of the categories must apply and meet certain requirements. For funds entering any of the categories except the newcomer categories must submit a 3-year track record of monthly performance data through June 2020. Funds entering the long-term performance (5 years) categories must submit a 5-year track record of monthly performance data through June 2020. There were 3 funds shortlisted in the Merger Arbitrage category, 8 funds shortlisted in the US Equity Long-term performance (5 years) under $1bn category, and 6 funds shortlisted in the Event Driven under $1bn category. Judges focus on absolute performance as well as standard deviation of returns and outperformance of the relevant HFM benchmark. They also take into consideration the relative AUM, nature of the investment strategy, track-records, other supporting materials and professional knowledge they have about shortlisted funds to come to their decisions.

Sharpe Ratio: Sharpe Ratio indicates the reward per unit of risk by using standard deviation and excess return. The higher the Sharpe ratio, the better the fund's historical risk-adjusted performance.

1. All exposure and position size calculations based on percent of long market value. Long market value includes the notional value of swaps.
2. EvercoreISI
3. SEI
4. Source: Bloomberg and internal calculation by NexPoint. Sharpe ratio calculation utilizes the S&P 0-3 Month U.S. Treasury Bill Index return for the risk-free rate.