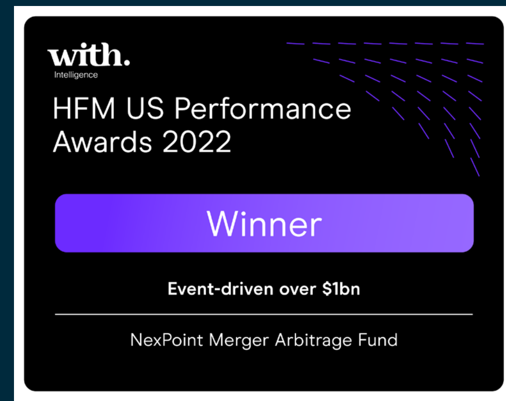
NEXPOINT

Q4 2022 COMMENTARY

NexPoint Merger Arbitrage Fund



Performance Review

The NexPoint Merger Arbitrage Fund (the "Fund") (Class Z shares) returned 1.64% in the fourth quarter of 2022. In comparison, the S&P Merger Arbitrage Index returned -0.46%, the S&P 500 returned 7.55%, and the Bloomberg Aggregate Bond Index returned 1.87%. For the year 2022, the Fund returned 2.70%. In comparison, the S&P Merger Arbitrage Index returned -4.92%, the S&P 500 returned -18.13%, and the Bloomberg US Aggregate Bond Index returned -13.01%. The Fund had its best relative performance in 2022 and avoided extreme downside volatility. The Fund outperformed its benchmark, the Bloomberg Aggregate Bond Index, by 15.7%, the highest margin ever, and outperformed the S&P 500 by 20.83%.

Manager's Discussion

From a geopolitical and macroeconomic perspective markets began the year under pressure stemming from concerns around rising inflation, stretched equity valuations, and the prospect of higher interest rates. The pressure was further exacerbated when Russia invaded Ukraine in February 2022, sending brent crude oil to $127 per barrel. In March, the Fed responded to rising inflation by raising the fed funds rate by 0.25% and then proceed to raise another 4.00% throughout the year, ending the year with a rate of 4.5%. As a result of the Feds hawkishness, the S&P 500 declined by over 18% and the high-yield market was basically closed to all but top tier issuers. Despite the overall market volatility, NexPoint's merger arbitrage strategy performed well due to our ability to manage volatility and to effectively price risk with our proprietary deal risk scoring model.

After a slower M&A environment in 2022, Wall Street expects increased activity in 2023 as companies will likely be more confident about the business climate considering central bankers are near peak interest-rate hikes and the pandemic has run its course. More importantly, valuations are more attractive after the sell-off in the global equity markets. Although Wall Street is not expecting a repeat of 2021 M&A activity, they are confident of a return to more-normalized levels as businesses attempt gain scale, add product lines, and improve supply chains through M&A. In addition, private equity deals should increase as the industry is flush with unspent capital and the high-yield new issue market is expected to improve. For instance, Thoma Bravo, a leading software investment firm, announced in December the completion of fundraising for its buyout funds totaling more than $32.4 billion in capital commitments. Private equity will likely aggressively deploy capital forcing corporations to become more active in the M&A space to acquire potential companies for their strategic objectives. The combination of private equity and corporations competing for acquisition targets should increase global M&A activity over 2022 levels and provide merger arbitrage investors attractive opportunities in 2023.

The past year was eventful with respect to regulatory, geopolitical, and macroeconomic factors that created uncertainty in not only the global M&A market but also the broader debt and equity markets. From a regulatory perspective U.S antitrust regulators, under the Biden administration, are trying to take a more aggressive approach to merger enforcement. In the absence of Congress amending current antitrust laws, the Federal Trade Commission ("FTC") and the Department of Justice ("DOJ") are taking steps to rewrite such laws through the courts. In a few deals, the FTC is employing potentially disruptive tactics with the intent of delaying deals with little to no chance of regulatory enforcement actions. While there have been several news reports highlighting the aggressive nature of the FTC and DOJ; the reports fail to highlight that in the U.S. there were over 3,000 announced M&A deals in 2022 but the FTC only took enforcement actions on just 22 companies, and of those only two involved a publicly traded target. While these headlines make for entertaining theater, they have limited impact on our strategy as we participate in deals with publicly traded targets.

Although the FTC's pursuit of enforcement actions serves to disrupt some deals as companies incur additional legal expenses and delayed closings, most of the high profile and risky deals are obvious to the M&A investment professionals that conduct fundamental reviews of deals. For example, in February 2022 the FTC sued to block Lockheed Martin Corporation's $4.4 billion proposed vertical acquisition of Aerojet Rocketdyne Holdings Inc, the last independent U.S. supplier of missile propulsion systems. Aerojet supplies advanced power, propulsion, and armament systems, which are critical components for the missiles made by Lockheed and other defense prime contractors. The agency's complaint alleged that if the deal is allowed to proceed, Lockheed will use its control of Aerojet to harm rival defense contractors, such as Raytheon, and further consolidate multiple markets critical to national security and defense. "Aerojet, as a subcontractor, is the last independent U.S. supplier of critical inputs for missile systems, hypersonic cruise missiles, and missile defense kill vehicles," the FTC said. That portion of the FTC's statement explains why that agency and others in the industry were worried about Aerojet being absorbed into Lockheed, a larger prime contractor. It was no surprise to Nexpoint that Aerojet and Lockheed agreed to terminate the deal in February 2022. In December 2022, Aerojet entered into a merger agreement with L3Harris Technologies, a military subcontractor with no overlapping business. The deal is expected to close in the third quarter of 2023.

Companies recognize that horizontal and vertical deals are going to receive a higher degree of scrutiny from the FTC for the foreseeable future; therefore, target company boards will need to incorporate language addressing those regulatory risks into their definitive merger agreements. As mentioned above, Aerojet agreed to be purchased by L3Harris, but Aerojet's board included several unique provisions to protect shareholders from regulatory uncertainty in the agreement. Specifically, L3Harris must pay additional cash consideration at closing equal to $0.0025 (or $0.075 per month) for each day elapsed after September 17, 2023, to Aerojet shareholders as compensation for the delay. Second, the walk date is December 2023 with an automatic extension to June 2024 to minimize the risk that L3Harris terminates the deal due to regulatory delays. Lastly, L3Harris has an obligation to defend "any Actions, lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the Merger." The combination of those provisions significantly reduces the regulatory risk to Aerojet shareholders and increases the odds that the deal ultimately closes.

Although the current regulatory environment is more challenging than prior years, we are very optimistic that the regulatory noise will have a muted impact on our investment strategy given our historical aversion to participate in deals with significant regulatory hurdles. As we evaluate the M&A landscape for 2023, we remain optimistic that our strategy will continue to provide investors with a low volatility, uncorrelated return that enhances their portfolio returns.

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

RETURNS (AS OF 12/31/22)

SHARE CLASS/ INDEX	YTD	1-YR	3-YR	5-YR	Since Incept.[1]
Class A	2.30%	2.30%	5.20%	5.73%	6.06%
Class A (w/load)	-3.32%	-3.32%	3.23%	4.54%	5.31%
Class C	1.66%	1.66%	4.50%	5.04%	5.45%
Class C (w/load)	0.69%	0.69%	4.50%	5.04%	5.45%
Class Z	2.70%	2.70%	5.55%	6.10%	6.33%

*Inception Date: 1/20/2015

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: 2.41%, Class C: 3.06%, Class Z: 2.06%; Net: Class A: 2.22%, Class C: 2.87%, Class Z: 1.87%

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, 2023 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.
Bloomberg US Aggregate Index. The Bloomberg US Agg Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).
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.
HFM US Performance Awards 2022 are awarded annually and to be eligible for an award, funds entering any of the categories must apply and meet certain requirements. Funds entering any of the categories except newcomer, ESG, best digital assets and alternative risk premia must submit a 3-year track record of monthly performance data through May 2022. Funds entering the newcomer categories must have a track record of monthly performance data of at least 12 months and less than 36 months (that is between 12 and 35 months) through June 2022. Funds entering the ESG, best digital assets and alternative risk premia categories must have a track record of monthly performance data of at least 12 months through June 2022. Funds entering the long-term performance (5 years) categories must submit a 5-year track record of monthly performance data through June 2022. There were 7 funds shortlisted in the Merger Arbitrage category and 7 funds shortlisted in the Event Driven over $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.

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 NexPoint Asset Management, L.P.

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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.

Prepared by NexPoint Securities, Inc., Member FINRA/SIPC.

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