NEXPOINT

Q2 2021 Commentary

NexPoint Merger Arbitrage Fund

HFM US PERFORMANCE AWARDS 2020
Shortlisted
Equity long-term performance (5 years) under $1bn

HFM US PERFORMANCE AWARDS 2020
Winner
Merger arbitrage
NexPoint Merger Arbitrage Fund
NexPoint

HFM US PERFORMANCE AWARDS 2020
Shortlisted
Event-driven under $1bn

Second Quarter Commentary

The NexPoint Merger Arbitrage Fund (the "Fund") (Class Z shares) returned 1.23% in the second quarter of 2021. The Fund's year to date 3.47 Sharpe ratio is aided by its year to date return of 3.11%. In comparison, during the second quarter the Barclays Aggregate Bond Index returned 1.83%, the S&P Merger Arbitrage Index returned 3.51%, the HFRI Merger Arbitrage Index returned 3.74%, and the S&P 500 returned 8.55%.

We think of the risks taken by merger arbitrage strategies as being largely deal-specific, with a degree of macro risk, but typically differing from the risks seen in the overall market. This dynamic was at play over the past quarter as both equity and fixed income markets grinded higher on the heels of moderating interest rates, while several developments unique to merger arbitrage put pressure on the space. The first development was President Biden's appointment of Lina Khan to Chair the Federal Trade Commission (FTC). Ms. Khan is well known for her article Amazon's Antitrust Paradox that was published in The Yale Law Journal, so her appointment raised questions as to whether she might push for a more progressive approach to antitrust enforcement than has been employed in the past. Shortly following Khan's appointment to Chair, the FTC sought to challenge the merger between the insurance brokerage giants Willis Towers Watson (WLTW) and Aon (AON). This caused the spread on the deal to widen significantly and sent cues to the market to apply wider spreads on certain other deals. At the time of writing, the WLTW merger has since failed causing an additional round of de-risking in the merger arbitrage space. While we do think that there is perhaps a shift occurring in the anti-trust landscape, by no means do we think that recent developments put every deal in jeopardy, as there are still plenty of deals being approved and closing on schedule as expected. In this case, the challenge of the WLTW / AON merger shouldn't have been particularly surprising given the apparent competition between the companies across multiple business lines that would have had pro forma market shares of over ~50% under the combined company. With the change of administrations it is reasonable that deal failure rates could increase, but not to the extent that it jeopardizes the strategy. Afterall, the average deal failure rate in the United States was ~12% while Obama was president, but dropped to ~7% during the first several years of Trump's presidency (although some of those deals are still outstanding). Therefore, we wouldn't be surprised to see some reversion towards the regulatory conditions that existed under the last Democrat president. Importantly however, the Fund has experience in such conditions (the Fund returned 7.1% annualized from inception through the 2016 presidential election on 11/8/16) and we do not expect that these developments will meaningfully alter our investment process. Moreover, deal flow remains very healthy and still offers plenty of opportunities to prudently deploy capital.

Despite some obstacles in the broader merger arbitrage landscape, the Fund managed to generate positive returns each month this quarter, culminating in a return of 1.23% for the quarter. The Fund returned 0.74%, 0.34%, and 0.15% in April, May, and June, respectively. Year to date, the Fund has generated a 3.11% return with a monthly standard deviation of 0.9% and a Sharpe ratio of 3.47.

The biggest contributors to the Fund's performance in the second quarter, were a pair of software companies that were both acquired by the private equity firm Thoma Bravo. Thoma's acquisitions of Talend (TLND) and Realpage (RP), each contributed over ~0.15% to returns during the quarter. There were no significant detractors to returns during the quarter. 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 also remain vigilant with regards to the shifting regulatory politics coming out of Washington.

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 6/30/21)

SHARE CLASS/ INDEX	1-YR	3-YR	5-YR	Since Incept.*
Class A	7.96%	7.14%	6.65%	6.81%
Class A (w/load)	2.00%	5.14%	5.44%	5.88%
Class C	7.29%	6.43%	5.88%	6.21%
Class C (w/load)	6.29%	6.43%	5.88%	6.21%
Class Z	8.39%	7.50%	6.96%	7.06%

*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: 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.

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

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