NexPoint Merger Arbitrage Fund

Third Quarter Commentary

The NexPoint Merger Arbitrage Fund (the “Fund”) (Class Z shares) returned 1.13% in the third quarter of 2021. The Fund’s year to date 5.55 Sharpe ratio is aided by its year to date return of 4.27%. In comparison, during the third quarter the Barclays Aggregate Bond Index returned 0.52%, the HFRI Merger Arbitrage Index returned 0.55%, the S&P Merger Arbitrage Index returned 0.57%, and the S&P 500 returned 0.58%.

The biggest contributor to the Fund’s performance in the third quarter was the acquisition of the cybersecurity developer Proofpoint (PFPT) by the private equity firm Thoma Bravo, which contributed over ~0.10% to performance during the quarter. The Fund managed to avoid several landmines in the broader arbitrage space as there were no major detractors during the quarter.

The third quarter began with turmoil in the broader merger arbitrage landscape and ended with turmoil in the markets as a whole. The merger of the insurance brokerage giants Willis Towers Watson (WLTW) and Aon (AON) was challenged by anti-trust regulators in June and the merger was eventually terminated in July. This was paralleled by a flurry of policy changes, particularly at the Federal Trade Commission (FTC), that appear to be an attempt to discourage mergers by large acquirers across a host of industries. These developments caused spreads of a handful of other mergers involving a large acquirer to widen, such as the spreads of the acquisition of Change Healthcare (CHNG) by UnitedHealth (UNH), the acquisition of Aerojet Rocketdyne (AJRD) by Lockheed Martin (LMT), and the acquisition of IHS Market (INFO) by S&P Global (SPGI), among others. Additionally, the perception of rising geopolitical tensions between the U.S. and China caused the spread on the acquisition of Xilinx (XLNX) by Advanced Micro Devices (AMD) to widen considerably as semiconductor deals in the past have been notorious for drawing long reviews from China’s State Administration for Market Regulation (SAMR) and the deal is conditioned on SAMR’s approval. The quarter ended with a sell-off in equities as the S&P 500 declined -4.65%, driven by concerns relating to inflation, the potential for rising interest rates, and high equity valuations.

Deal flow remained strong in the third quarter with over $300 billion in announced deals in the Fund’s investable universe, many of which appear less controversial than the deals mentioned above. In the past we have been accustomed to lumpiness in deal flow with geopolitical events and changes in the regulatory environment at times influencing deal flow. However, the strong deal flow we are seeing this year suggests that continued pent-up demand for mergers and acquisitions that was built up during the pandemic-stricken months of 2020 continues to be released, thus far unhindered by changing regulatory views towards anti-trust. We would note that it is not particularly unusual to see evolving anti-trust policy coincide with a change in governmental administrations. 2017 for example saw significant changes in how anti-trust was applied as the new Trump administration encouraged regulators to examine the vertical effects of mergers, such as the effects of the acquisition of Time Warner (TWX) by AT&T (T). As such, we are not surprised to see a change in focus under the Biden administration. Such transitional periods can drive higher degrees of uncertainty in merger arbitrage markets as it is initially unclear how changing policy will translate into anti-trust enforcement. However, as time goes on and anti-trust reviews close, both arbitrageurs and deal makers begin to better understand the intent of new policy and how it is being applied, thereby allowing better inferences to be made regarding a potential business combination will be viewed. We think that in the FTC and Department of Justice will likely challenge additional deals in the medium term, especially after successfully quashing the Willis Tower Watson acquisition. Given the Fund's absolute return investment philosophy, we think that it is prudent to protect against potential drawdowns in such an environment and maintain a healthy degree of respect for the anti-trust agencies, particularly on marginal deals.

It is increasingly clear that mergers involving large acquirers are drawing increased scrutiny from regulators and we don't know what the final outcome will be for some of the deals we have highlighted in this piece. It is very possible that many of them will proceed even after a drawn-out review; we will pay close attention to these developments. The Fund has experience generating returns in such conditions (the Fund returned 7.1% annualized from inception through the 11/8/2016 presidential election under a Democratic administration and also generated a 5.5% return amidst the changing regulatory landscape of 2017) and we do not expect that any of the developments described above will meaningfully alter our investment process. Moreover, deal flow remains healthy and continues to offer plenty of opportunities to prudently deploy capital.

Despite the -4.65% drop in the S&P 500 during September as well as several obstacles in the broader merger arbitrage landscape, the Fund has generated positive returns each month this year and realized a 1.13% return during the third quarter. We would also point out that the Fund has had just two down months over the past three years (9/30/18-9/30/21) and highlight that by owning a fund with low correlation within a portfolio of assets, investors can potentially increase the returns of their portfolios while reducing their overall risk. It's during large market drawdown months like we saw in September that assets with low correlation to the broader markets, such merger arbitrage strategies, tend to particularly shine. We believe that, even in a changing regulatory environment, merger arbitrage strategies offer the prospect of attractive risk-adjusted returns and powerful diversification properties within a portfolio. The Fund returned 0.49%, 0.29%, and 0.35% in July, August, and September, respectively. Year to date, the Fund has generated a 4.27% return with a monthly standard deviation of 0.8% and a Sharpe ratio of 5.55. The Fund has year to date correlations of 0.09 and -0.15 to the S&P 500 and Barclays Aggregate Bond Index, respectively. Since inception, the Fund's correlation to the S&P 500 is 0.22 and correlation to the Barclays Aggregate Bond Index is 0.07.

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 OF9/30/21)

SHARE CLASS/ INDEX	YTD	1-YR	3-YR	5-YR	Since Incept.
Class A	3.95%	7.18%	6.79%	6.35%	6.71%
Class A (w/load)	-1.75%	1.26%	4.80%	5.16%	5.82%
Class C	3.43%	6.44%	6.09%	5.67%	6.11%
Class C (w/load)	2.43%	5.44%	6.09%	5.67%	6.11%
Class Z	4.22%	7.57%	7.18%	6.72%	6.96%

*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.

TOP 10 DEALS (TARGET / ACQUIRER) Magellan Health (MGLN) / Centene (CNC) 11.1%. Talend (TLND) / Thoma Bravo 10.3%. PRA Health Sciences (PRAH) / ICON (ICLR) 7.6%. Proofpoint (PFPT) / Thoma Bravo 7.3%. Athene (ATH) / Apollo Global Management (APO) 4.9%. Weingarten Realty Investors (WRI) / Kimco Realty (KIM) 4.7%. Knoll (KNL) / Herman Miller (MLHR) 4.5%. Deutsche Wohnen (DWNI GR) / Vonovia (VNA GR) 4.1%. Constellation Pharmaceuticals (CNST) / MorphoSys (MOR GR) 3.7%. Alexion Pharmaceuticals (ALXN) / AstraZeneca (AZN LN) 3.3%.

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 expo-

sure 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.

NEXPOINT
www.nexpoint.com
(833) 697-7253