NEXPOINT

Q4 2022 COMMENTARY

NexPoint Event Driven Fund

Performance Review and Manager's Discussion

The NexPoint Event Driven Fund (the "Fund") (Class Z shares) returned 1.35% 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%.

The markets began 2022 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, sending brent crude oil to $127 per barrel. In March, the Fed responded to rising inflation by increasing the fed funds rate by 0.25% and then proceeded 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 Event Driven Fund was up 2.46% since the strategy's inception on January 20, 2022* and weathered the market downdraft due to our ability to manage volatility and effectively price risk.

After a slower event-driven environment in the back half of 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. We expect more companies to undergo strategic reviews and consider a spin-off of an undervalued division or a merger to increase shareholder value. In addition, activists' investors are likely to push boards to add more independent directors, replace CEO's that underperformed, and, in some cases, restructure operations to drive higher margins. Although Wall Street is not expecting a repeat of 2021 event-driven 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 be 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 and provide event-driven 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 regulators are 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. However, the FTC 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 focus on publicly traded companies.

Although the FTC's pursuit of enforcement actions serves to disrupt some deals, most risky deals are obvious to the merger arbitrage investment professionals that conduct fundamental due diligence. Frankly, those high-profile deals are at times excellent short candidates for the Fund, as the spreads do not always fully reflect the regulatory risk of a deal. For example, the FTC sued to block Lockheed Martin Corporation's $4.4 billion proposed vertical acquisition of Aerojet Rocketdyne Holdings Inc; and shortly after Aerojet and Lockheed terminated the deal. As a result, Aerojet's stock price declined over 18% from January 24th - February 13th. The agency's complaint alleged that if the deal was allowed to proceed, Lockheed would 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. Based on the aforementioned, it was no surprise to Nexpoint that the deal terminated shortly after the FTC sued to block.

Companies recognize that horizontal and vertical deals are likely to receive a higher degree of scrutiny from the FTC and DOJ 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, Lockheed Martin terminated the deal shortly after the FTC sued to block the proposed acquisition. Fast tracking to December 2022, 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 it will provide ample opportunity to exploit pricing inefficiencies that will occur as investors adapt to a more aggressive regulatory environment. As we evaluate the M&A and Event-Driven 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.

Returns Since Strategy Inception January 20, 2022 (As of 12/31/2022)

Share Class/Index	YTD	1-Year	3-Year	5-Year	10-Year	ITD
Class A	N/A	N/A	N/A	N/A	N/A	2.08%
Class A (w/load)	N/A	N/A	N/A	N/A	N/A	-2.92%
Class C	N/A	N/A	N/A	N/A	N/A	1.40%
Class C (w/load)	N/A	N/A	N/A	N/A	N/A	2.46%

Annualized Returns (%) as of 12/31/2022

Share Class/Index	Incept.**	YTD	1-Year	3-Year	5-Year	10-Year	Since Incept.
Class A	5.5.08	-5.82	-5.82	-1.89	3.33	4.71	4.27
Class A (w/load)	5.5.08	-10.99	-10.99	-3.73	2.17	4.11	3.87
Class C	5.5.08	-6.47	-6.47	2.53	2.66	4.05	3.65
Class C (w/load)	5.5.08	-7.40	-7.40	-2.53	2.66	4.05	3.65
Class Z	5.5.08	-5.49	-5.49	-1.53	3.70	5.10	4.65
S&P 500		-18.11	-18.11	7.66	9.42	12.56	9.36

* Returns are from January 20, 2022, to December 31, 2022. In 2022 the fund was renamed to NexPoint Event Driven. Prior to January 20, 2022, the Fund was managed pursuant to a different investment strategy.

**Prior to January 20, 2022, the Fund was managed pursuant to a different investment strategy. As a result of the difference in investment strategy, the performance information presented for periods prior to January 20, 2022 reflects management of the Fund consistent with investment strategies in effect during those periods and might have differed materially if the Fund's investments had been managed under its current investment strategies.

Fees & Expenses

	Gross	Net
Class A	3.07	2.11
Class C	3.72	2.76
Class Z	2.72	1.76

The Net Expense Ratio excluding Investment Related Expenses is 1.54%. Investment Related expenses include acquired fund fees of 0.03% and dividend expense on short sales and other excluded expenses of 0.20%. Expenses stated as of the fund's most recent prospectus. The difference between gross and net expense ratios are due to contractual and/or voluntary waivers, if applicable. 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. The net expense ratio would be applicable to investors.

SALES CHARGES

Class A Max Sales Charge: 5.50%. Class C Contingent Deferred Sales Charge ("CDSC") is 1% within the first year from each purchase.
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 877-665-1287.

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 highlandfunds.com or call 1-877-665-1287.Please read the fund prospectus carefully before investing.

RISK CONSIDERATIONS
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. **Industry Concentration Risk.** Because the Fund normally invests at least 80% of the value of its assets in healthcare companies, the Fund's performance largely depends on the overall condition of the healthcare industry and the Fund is susceptible to economic, political and regulatory risks or other occurrences associated with the healthcare industry. **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-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). **Portfolio Turnover Risk.** High portfolio turnover will increase the Fund's transaction costs and may result in increased realization of net short-term capital gains, higher taxable distributions and lower after-tax performance. **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.** Hedging is a strategy for reducing exposure to investment risk. An investor can hedge the risk of one investment by taking an offsetting position in another investment. The values of the offsetting investments should be inversely correlated. There is no assurance that hedging strategies will be successful. **Merger Arbitrage and Event-Driven Risk** is the risk that the Adviser's evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue or other event, will prove incorrect and that the Fund's return on the investment will be negative. Even if the Adviser's judgment regarding the likelihood of a specific outcome proves correct, the expected event may be delayed or completed on terms other than those originally proposed, which may cause the Fund to lose money. The Fund's expected gain on an individual arbitrage investment is normally considerably smaller than the possible loss should the transaction be unexpectedly terminated. **Special Purpose Acquisition Companies Risk** is the risk that the Fund may invest in stock of, warrants to purchase stock of, and other interests in special purpose acquisition companies or similar special purpose entities that pool funds to seek potential acquisition opportunities (collectively, "SPACs"). Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. **S&P 500 Total Return Index** is an index of a basket of 500 stocks designed to provide a broad snapshot of the overall U.S. equity market. The total return index series reflects both ordinary and special dividends. Investors cannot invest directly into an index.

1 Only eligible investors may purchase Class Z Shares. Please refer to the prospectus for information and conditions.
2 A hard catalyst is an event that has a defined outcome. A soft catalyst is an anticipated event.

Source: SEI

The advisor to the Fund is NexPoint Asset Management, L.P.

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