Q1 2023 COMMENTARY

NexPoint **Merger Arbitrage Fund**

NEXPOINT

Performance Review

The NexPoint Merger Arbitrage Fund (the "Fund") (Class Z shares) returned -0.57% in the first quarter of 2023. Comparatively, the S&P Merger Arbitrage Index returned -1.47%, the S&P 500 returned 7.48%, and the Bloomberg Barclays Aggregate Bond Index returned 2.96% in the first quarter of 2023.

Top Contributor

IAA, Inc. (IAA) / Ritchie Bros. Auctioneers Incorporated (RBA): In November 2022, IAA – a digital marketplace operator specialized in connecting buyers and sellers of total-loss and damaged vehicles – agreed to be acquired by RBA for $7.3 billion. The deal closed on March 31, 2023, after RBA shareholders voted for the acquisition despite the pushback from proxy advisory firms: Institutional Shareholder Services and Glass Lewis. The position returned approximately 0.23% to the fund for the quarter.

Top Detractor

First Horizon Corporation (FHN) / The Toronto-Dominion Bank (TD): In February 2022, FHN – a regional bank with $80 billion of assets and 417 banking centers located mainly in Tennessee, Florida, North Carolina, and Louisiana – agreed to be acquired by TD, the second largest bank in Canada with $1.5 trillion of assets, for $13.4 billion.

On February 9, 2023, FHN and TD agreed to extend the outside date to May 27, 2023, given regulatory delays on TD's side. In their annual report – which was released on March 1, 2023 – FHN disclosed that TD had informed them that the necessary regulatory approvals would not be received in time to complete the pending merger by May 27, 2023. TD was also unable to give a projected closing date at that time. In TD's earnings call the following day, the CEO stated that the company is "fully committed to the transaction" and "in discussions with First Horizon about a potential further extension beyond May 27th." He later stated that the transaction "offers scale and new capabilities for the U.S. bank." FHN's stock declined 10.6% on the deal delay news. Subsequently, FHN stock traded down along with all regional banks after SVB Financial Group and Signature Bank were seized by regulators. FHN's stock declined 28.2% for the month, and the position detracted approximately -0.90% from the fund for the quarter.

Manager's Discussion

This quarter is one that investors will be studying for years. The Fed raised rates 0.25% in the face of the second and third largest bank failures (yes plural) in history; CPI came in above expectations; the unemployment rate plunged to its lowest level since the 1950s; and the S&P 500 and NASQAQ ended the quarter up 7.48% and 17.05%, respectively. Who knew bank failures could be so bullish. Additionally, it's worth noting that Apple and Microsoft were up 27% and 20%, respectively in the first quarter, and they had a combined equity market capitalization roughly double the combined weight of the entire Energy and Materials sectors. Many equity investors are taking comfort with an inverted yield curve and, consequently, with the anticipation that the Fed has finished raising rates. More importantly, investors believe that the Fed will begin cutting rates this summer and that a soft landing is all but guaranteed, just like Silicon Valley Bank's deposits. We remain cautious about the economic outlook and corporate earnings given that the turmoil in the regional banking sector has yet to play out, the Fed is higher for longer, and the looming drama associated with the Federal debt limit extension in July will likely increase near-term volatility and economic uncertainty.

M&A activity started 2023 off on a light note, with January being the slowest month in over two decades. Despite higher interest rates and a more risk-averse stance from traditional lenders, merger activity increased significantly in February and March, ending the quarter with approximately $170.9 billion in deal value across 45 pending deals with definitive merger agreements. The consolidation in the pharmaceutical sector continued with Pfizer's $41.1 billion acquisition of Seagen, and we also saw continued deal activity in the technology sector with Silver Lake's $12.5 billion acquisition of Qualtrics International, Inc. Financial sponsor activity increased with 13 deals representing approximately $49.3 billion in the first quarter. In March, there were 8 announced LBO deals greater than $1.0 billion, which is the most since April of 2022 before credit markets froze.

Merger Arbitrage volatility has increased over the past few quarters due to an uptick in second requests, negative political rhetoric towards mergers, and outright lawsuits to block deals. For example, the Justice Department, together with Attorneys General of the Commonwealth of Massachusetts, the State of New York, and the District of Columbia, filed a civil antitrust lawsuit on March 7, 2023, to block JetBlue Airways Corporation's proposed $3.8 billion acquisition of Spirit Airlines, Inc. Although the lawsuit was

widely expected, Spirit's stock traded down on the news. The Fund does not have exposure to the deal; however, the Fund held a position in Atlas Air Worldwide Holdings, Inc. ("AAWW"), the world's largest operator and lessor of 747 freighters. In August 2022, a consortium led by Apollo Global Management, a large private equity group, agreed to purchase AAWW for $4.6 billion. The deal cleared HSR in October 2022, but the Department of Transportation ("DOT") had yet to transfer the Operating Certificate to Newco. It's worth noting that the DOT has never refused to transfer an operating license to a financially viable entity. Despite clearing HSR and Apollo having raised all the funds needed for the buyout in February (the cash proceeds were in escrow waiting to fund the buyout), AAWW stock traded down over 3% in sympathy with the Spirit/JetBlue DOJ news. On March 14, 2023, AAWW stock was trading at $99.22, 3.3% below the agreed-upon purchase price of $102.50. The following day, the DOT approved the transfer of the certificate to Newco, and the transaction closed on March 20, 2023. The AAWW deal highlights that the current political nature of regulatory agencies can add uncertainty to some merger arbitrage deals but also create significant upside opportunities in deals that offer attractive spreads to investors like us, who focus on fundamental due diligence and deep regulatory reviews before making investment decisions.

On a positive note, merger arbitrage investors were given a much-needed reprieve from the onslaught of second requests over the past year. The FTC agreed to take no action on CVS Health Corporation's $10.5 billion acquisition of Oak Street Health, Inc., despite Senator Elizabeth Warren requesting that Chair Khan investigate the merger, "Given the potential risk that vertical integration could lead to higher health care prices and lower quality of care." The FTC's action comes as a significant surprise; this development potentially reveals a different tactic on large healthcare mergers from what we have seen over the past year with second requests being issued and lawsuits being filed. While we are uncertain that the DOJ and FTC are no longer subjecting transacting healthcare companies involved in vertical or horizontal mergers to deeper scrutiny and consideration of novel theories of harm, we will be on the lookout for future instances where the FTC has no legal merit to pursue litigation to block a transaction.

Regarding the Fund's exposure to Special Purpose Acquisition Companies ("SPACs"), over the past eighteen months, we have materially reduced the Fund's exposure from 11.7% in June 2021 to less than 1% today. A SPAC is a publicly traded corporation with a two-year lifespan formed solely to effect a merger, or "combination," with a privately held business that enables it to go public. The Fund has always elected to redeem its shares for the value of the cash in trust once a target has been identified, in part because most SPACs have poor performance post-closing. A SPAC, at its core, is nothing more than a publicly traded vehicle that holds a portfolio of Treasury securities with a built-in option that the SPAC sponsor will find an attractive target, allowing the stock to trade higher. Frankly, this rarely happens. The days of holding a SPAC due to "optionality" associated with a sponsor finding a great deal are likely over. Today, SPACs are nothing more than an extremely illiquid security that holds a pool of Treasury securities. There are only 6 out of approximately 435 SPACs with a 30-day average trading volume greater than $5.0 million and 219 (50% of the universe) that trade less than $250,000 or 25,000 shares per day. We view SPACs as an extremely unattractive investment alternative because it has the upside of T-Bills and the liquidity profile of a micro-cap stock; therefore, we elected back in early 2022 to begin reducing the fund's exposure to SPACs because the liquidity profile coupled with the T-Bill return is an unsuitable investment for a daily liquid fund.

We are very encouraged by the uptick in mergers and acquisitions in February and March, and we remain confident that our strategy will continue to provide investors with a low-volatility, uncorrelated return that enhances their portfolio's performance. We will continue to favor deals that have attractive spreads, manageable regulatory hurdles, and shorter expected closing dates. We want to thank our shareholders for their continued support of the fund.

RETURNS (AS OF 3/31/2023)

SHARE CLASS/ INDEX	YTD	1-YR	3-YR	5-YR	Since Incept.[1]
Class A	-0.68	1.41	5.19	5.84	5.79
Class A (w/load)	-6.14	-4.18	3.23	4.65	5.06
Class C	-0.79	0.79	4.52	5.14	5.18
Class C (w/load)	-1.77	-0.17	4.52	5.14	5.18
Class Z	-0.57	1.79	5.57	6.21	6.06

*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.

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.

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.