Q3 2023 COMMENTARY

NEXPOINT

NexPoint Merger Arbitrage Fund

PERFORMANCE REVIEW

The NexPoint Merger Arbitrage Fund (the "Fund") (Class Z shares) returned 3.28% in the third quarter of 2023. Comparatively, the S&P Merger Arbitrage Index returned 4.11%, the S&P 500 declined -3.27%, and the Bloomberg Aggregate Bond Index declined -3.23% over the same period. YTD through September 30, 2023, the Fund returned 2.78%. Comparatively, the S&P Merger Arbitrage Index returned 2.55%, the S&P 500 returned 13.06%, and the Bloomberg Aggregate Bond Index declined -1.21% over the same period.

TOP CONTRIBUTOR

Horizon Therapeutics plc (HZNP) / Amgen Inc. (AMGN): In December 2022, Horizon Therapeutics – a biotechnology company focused on rare, autoimmune, and severe inflammatory diseases – agreed to be acquired by Amgen for $27.0 billion. The deal spread tightened significantly in late August due to the Federal Trade Commission's commissioners agreeing to end an administrative action to block the deal, setting a clear path for a settlement. The deal closed in early October 2023. The position added approximately 0.47% to the Fund's quarterly performance.

TOP DETRACTOR

None

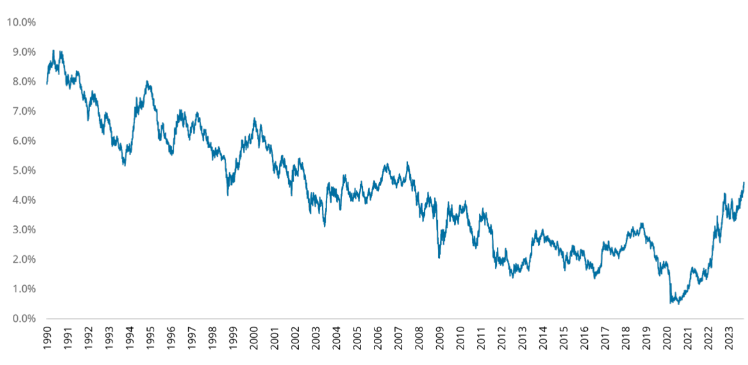
MANAGER'S DISCUSSION

The US government bond market underwent a significant shift in September, with investors closely attuned to Federal Reserve Chairman Powell's "higher-for-longer" stance on interest rates. This resulted in a substantial increase in the ten-year bond yield, which climbed from 3.8% in June to 4.5% in September. This interest rate surge had a noticeable ripple effect on the equity markets. The S&P 500 (SPY) and Russell 2000 (IWM) indices both experienced declines of approximately -5% and -8%, respectively, from their late July highs to the end of September.

The reluctance of equity investors to embrace this new interest rate environment is understandable, given the allure of low-cost capital. As investors adapt to higher rates and begin factoring a 5% or 6% risk-free rate into their valuation models, it's anticipated that stock price-to-earnings multiples will contract, further exerting downward pressure on stock prices. Consequently, corporate earnings must not only grow but exceed their historical trend to counteract the contraction in valuations caused by rising interest rates if the equity markets are to rebound.

The performance of a select group of companies, dubbed the Magnificent Seven Index, – comprising Nvidia Corp., Tesla Inc., Meta Platforms Inc., Amazon.com Inc., Alphabet Inc., Apple Inc., and Microsoft Corp – have shown an impressive 28% increase in blended forward 12-month earnings per share consensus forecasts over the past year. In contrast, the broader S&P 500 exhibited minimal earnings growth, and the Nasdaq even experienced a decline. This dearth of earnings growth helps clarify why the equal-weighted ETF, S&P 500 (RSP) posted a mere 0.31% increase through the third quarter, highlighting the challenge of achieving market-wide growth amid shifting interest rate dynamics.

US Generic Government 10-Year



Fixed income investors are facing a challenging year marked by a combination of unfavorable factors. The Federal Reserve's commitment to maintaining higher interest rates for an extended period, a surge in energy prices, a slowdown in disinflation, and the ongoing supply pressure from increased US government bond issuance have collectively driven yields upward. If we were to point to one chart that exemplifies the current shift in US interest rates, it would be the US 10-year government bond yield. As highlighted in the table, this chart underscores the notion that the post-global financial crisis cycle (e.g., post 2009) was an anomaly, and we are now on a trajectory back to a more "normal" interest rate environment. Notably, the 10-year yield has unmistakably broken free from its thirty-year downtrend and is on a path towards levels not witnessed since 2007. This new interest rate paradigm will undoubtedly have far-reaching implications for the pricing of risk assets, particularly impacting sectors such as commercial real estate and private equity companies.

M&A UPDATE:

North American and European M&A activity had a sluggish start to the year but has since shown stability. The combined volume for the first nine months amounted to approximately $2.0 trillion , representing a decrease of about 23% compared to the same period last year. However, in the third quarter, North American M&A activity remained robust, reaching around $439 billion, which is a notable increase of approximately 26% compared to the third quarter of 2022. The decline in M&A volume is most noticeable in the technology sector, which saw year-to-date volume of approximately $230 billion, a decline of around 61% year-over-year. It's important to note that a significant portion of this decline can be attributed to the absence of major deals like the Activision and Twitter acquisitions.

Financial sponsors have played a prominent role in North American M&A, accounting for roughly $400 billion in year-to-date activity, representing just over 30% of the overall M&A activity. However, it's worth mentioning that sponsors are currently on track for the lowest level of M&A activity since 2013. One notable trend is the increase in take-private transactions, with 25 such transactions announced year-to-date in the $1 billion to $10 billion deal size range. This marks a 16-year high in this category, and it's expected that more take-private activity will occur as financing markets continue to open up.

During the third quarter, there were two large deals that will help absorb capital from several other large deal closings. On September 12th, Smurfit Kappa Group PLC and Westrock Company announced that they have entered into a definitive merger agreement under which Smurfit will acquire all outstanding shares of Westrock in a cash-and-stock transaction valued at approximately $20.9 billion, including assumed debt. On September 21st, Cisco Systems and Splunk Inc. announced that they have entered into a definitive merger agreement under which Cisco will acquire all the outstanding shares of Splunk in an all-cash transaction valued at approximately $28.0 billion.

The combination of Westrock and Smurfit is expected to create a global leader in sustainable packaging with unparalleled scale, quality, product, and geographic diversity. The deal is subject to Smurfit and Westrock shareholders' approval and customary regulatory approvals, mainly the US, EC, and Mexico. Smurfit indicated that antitrust issues are not expected in any jurisdictions other than Mexico. The parties expect to close by June 2024.

The Splunk acquisition will provide a powerful force in the cyber security space with a formidable presence in cyber security on the cloud. Despite occupying a larger role in the burgeoning cloud security field and pervading concerns surrounding bundling and overlaps in observability solutions, we believe the deal will likely receive an in-depth review from the Department of Justice, given its "Big Tech," but it's expected to close by the third quarter 2024.

REGULATORY UPDATE:

During the third quarter, the Federal Trade Commission (FTC) and Department of Justice continued its laggard pace of second requests, issuing just two to Amedisys, Inc., which is being purchased by United Healthcare, Inc., and Seagen Inc., which is being purchased by Pfizer Inc. Those second requests were expected. In addition, the Desktop Metal, Inc and Stratasys Ltd. deal received a second request; however, the deal was terminated in September by Stratasys' shareholders.

On September 26th, the FTC and 17 states, all with democratic governors, filed a lawsuit against Amazon.com, Inc., alleging that the company is a monopolist using anticompetitive strategies to unlawfully maintain its monopoly power. The complaint contends that Amazon's practices thwart competitors and sellers from reducing prices, compromise product quality, overcharge sellers, hinder innovation, and stifle fair competition. It argues that Amazon is in violation of antitrust laws, not because of its size, but due to its exclusionary actions that prevent existing competitors from growing and emerging competitors from entering the market. By suppressing competition in pricing, product variety, quality, and by obstructing rivals from attracting a substantial number of shoppers and sellers, Amazon safeguards its dominant position.

The lawsuit is part of Lina Khan's ongoing effort to challenge Amazon, an initiative that traces back to 2016 when she published an article in the Yale Law Journal titled "Amazon's antitrust paradox," which critiqued how U.S. antitrust law is applied in cases like Amazon's. While the complaint is heavily redacted, some critics view it as a relatively weak case, as it fails to provide a clear list of competitors harmed or consumers adversely affected. This is unexpected given the substantial resources and time the FTC has invested in the case.

The complaint takes issue with specific Amazon business practices it deems anticompetitive, such as discouraging sellers from offering lower prices on other platforms and penalizing sellers who don't use Amazon's fulfillment services. However, it's pointed out that these practices aren't inherently illegal, and some of these restrictions, like the fulfillment requirement, were put in place during COVID-19 pandemic and have since been lifted. What's perhaps most surprising to some is that the FTC did not propose specific remedies or advocate for breaking up Amazon. This lawsuit may be more about scrutinizing Amazon's practices and the potential consequences for the company rather than an immediate push for its dismantlement. It's important to recognize that antitrust cases can be lengthy and complex, with a trial not expected for at least eighteen months. Some individuals view this as an example of a broader debate about antitrust enforcement and the role of Big Tech companies in the modern economy.

In the third quarter, there were some positive developments related to merger arbitrage in terms of regulatory outcomes. Notably, the FTC dropped its case against Horizon Therapeutics, and Amgen successfully closed the deal on October 9th. Additionally, the FTC ceased its case against Intercontinental Exchange Inc.'s acquisition of Black Knight Inc. This came after Black Knight announced its intention in mid-July to divest its Optimal Blue business to Constellation Software. This strategic move enabled the deal to close in September. These favorable regulatory outcomes are reinforcing the belief that M&A activity will likely continue to increase as companies become more adept at navigating the regulatory landscape, particularly dealing with the FTC's scrutiny. This suggests growing confidence in merger and acquisition transactions and a potentially more favorable environment for such deals in the future.

The Fund maintains a high level of confidence in its strategy, which is designed to deliver investors low-volatility returns that are uncorrelated with broader market movements. By prioritizing deals with appealing spreads, regulatory obstacles that can be managed effectively, and shorter expected closing timelines, the Fund strives to provide investors with a favorable risk-reward profile. We would like to express our sincere appreciation to our shareholders for their ongoing support.

RETURNS (AS OF 9/30/2023)

SHARE CLASS/ INDEX	YTD	1-YR	3-YR	5-YR	Since Incept.*
Class A	2.49	4.11	4.32	5.22	5.83
Class A (w/load)	-3.15	-1.64	2.36	4.04	5.14
Class C	2.03	3.47	3.62	4.53	5.21
Class C (w/load)	1.04	2.48	3.62	4.53	5.21
Class Z	2.78	4.46	4.69	5.60	6.10

*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.

[1]As of 9/30/2023, HZNP is 8.2% of the fund.