Q3 2023 COMMENTARY

NexPoint Event Driven

PERFORMANCE REVIEW

The NexPoint Event Driven Fund (the "Fund") (Class Z shares) returned 3.75% 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 5.14%. 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)[4] 8% / 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 0.54% to the Fund's quarterly performance.

TOP DETRACTOR

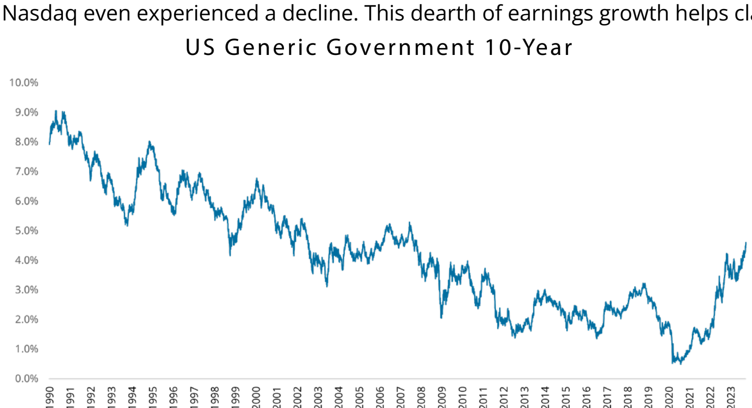
Atlantic Sustainable Infrastructure PLC: The Fund has an equity position in Atlantic Sustainable Infrastructure ("AY"), a growth-oriented dividend-paying company that owns and operates a diverse portfolio of long-term contracted assets that yield high-quality cash flows. AY's largest shareholder, with 42% ownership, is seeking a sale of the company. The position detracted approximately -0.21% to the Fund's quarterly performance.

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 4.6% in September. This interest rate surge had a noticeable ripple effect on the equity markets. The S&P 500 (SPY) and Russell 2000 (IWM) ETFs both experienced declines of approximately -6% and -10%, 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 S&P 500 (RSP) ETF posted a mere 0.31% increase through the third quarter, highlighting the challenge of achieving market-wide growth amid shifting interest rate dynamics.



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[3], 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.

SOFT CATALYST[2] UPDATE:

The soft catalyst activity continued in the third quarter and has given rise to a multitude of event-driven opportunities for the Fund. During the last quarter, 35 rumored M&A deals were revealed, with 6 of them progressing to the point of definitive merger agreements. Additionally, 21 major activist campaigns were announced, along with the successful execution of 3 tax-free spinoffs, with another 3 trading on a when-issued basis. Furthermore, there were 37 strategic reviews announced during the quarter, and an impressive 10 IPOs successfully priced, generating a total of $7.3 billion in proceeds.

While an uptick in tax-free spinoffs might typically present an appealing opportunity to acquire undervalued assets, our examination of the spin-offs announced and executed in the third quarter of 2023 revealed a different story. Contrary to our initial expectations, these spin-offs consisted of lower-growth assets burdened by higher leverage levels compared to their industry peers. Consequently, they did not present as particularly attractive investments, leading us to steer clear of these events. As anticipated, they underperformed upon execution.

It's important to note that those assets were part of a group of assets originally slated for divestiture by their parent companies but failed to attract suitable bids due partially to the challenging financing landscape in the first half of the year. However, as corporations and sponsors adjust to the prolonged period of higher interest rates, we have witnessed renewed interest. This is exemplified by recent announcements regarding the acquisition of two businesses that were initially intended for spinoff: Jacobs Solutions' CMS business and Vista Outdoors' Outdoor Sporting Goods business.

The credit markets have been a promising source of lower volatility, higher-yielding alpha generating opportunities. In particular, leveraged loans have continued to rally over the course of the year as investors allocate capital to the floating-rate product in the wake of the Fed's rate hikes. As a result, the Fund's debt securities have outperformed. Credit opportunities have become a unique way to play potential takeouts given the positive carry and lower break price risk associated with the debt. Looking forward to the fourth quarter, we believe that trading up the capital structure to fixed income securities will continue to be beneficial for our soft catalyst strategies.

The sentiment within the equity capital markets underwent a notable shift, evolving from a cautiously optimistic stance at the beginning of the quarter to a more cautious outlook by quarter-end. Initially, there was an increase in IPO volumes, breathing fresh life into the primary market after a dormant period of 18 months. However, large deals like ARM Holdings and Instacart, while initially showing promise during the book-building process with substantial order book subscription levels and upward revisions in valuation, ultimately fell short of expectations.

A significant number of investors who secured allocations in these offerings, including NexPoint, opted to exit their positions on the first trading day to capture a quick profit. This decision stemmed from growing concerns surrounding lofty valuations and a broader shift towards risk aversion, which subsequently led to these issuances trading below their IPO prices.

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. Our enthusiasm remains high as we look ahead to a vibrant landscape of soft catalyst opportunities in the fourth quarter of 2023. These opportunities will be propelled by ongoing divestitures, recapitalizations, activist campaigns, and various corporate arbitrage events. In line with our approach, the Fund will persist in its dynamic and agile positioning across corporate capital structures, striving to yield exceptional risk-adjusted returns. We would like to express our sincere appreciation to our shareholders for their ongoing support.

Returns Since Strategy Inception January 20, 2022 (As of 09/30/2023)

Share Class/Index	Incept. **	YTD	1-Year	3-Year	5-Year	10-Year	ITD
Class A	1.20.22	4.91	6.25	N/A	N/A	N/A	4.13%
Class A (w/load)	1.20.22	-0.86	0.40	N/A	N/A	N/A	2.33%
Class C	1.20.22	4.45	5.59	N/A	N/A	N/A	3.45%
Class Z	1.20.22	5.14	6.56	N/A	N/A	N/A	4.49%

Annualized Returns (%) as of 09/30/2023

Share Class/Index	Incept.**	YTD	1-Year	3-Year	5-Year	10-Year	Since Incept.
Class A	5.5.08	4.91	6.25	-3.02	-0.94	2.47	4.27
Class A (w/load)	5.5.08	-0.86	0.40	-4.82	-2.05	1.89	3.87
Class C	5.5.08	4.45	5.59	-3.62	-1.57	1.84	3.65
Class Z	5.5.08	5.14	6.56	-2.68	-0.59	2.85	4.65

*Returns are from January 20, 2022, to September 30, 2023. 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.

	Gross	Net
Class A	3.20	2.11
Class C	3.85	2.76
Class Z[1]	2.85	1.76

Fees & Expenses

The Net Expense Ratio excluding Investment Related Expenses is 1.50%. 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. Performance results reflect the contractual waivers and /or reimbursements of fund expenses by the Advisor. Absent this information, performance results would have been lower. 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.

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. **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. **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. **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).

[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 [3]Source: Citi

[4]As of 9/30/2023, HZNP is 8.0% of the fund. As of 9/30/2023, Atlantic Sustainable Infrastructure is 1.15% of the fund.