

NexPoint Merger Arbitrage Fund

Bottom Line: NexPoint Merger Arbitrage Fund (HMEZX) returned +0.41% in November and is up +3.62% for the year-to-date period. In comparison, the S&P Merger Arbitrage Index returned +0.69%, the S&P 500 returned 9.13%, and the Bloomberg Aggregate Bond Index returned +4.53% for November. YTD, the S&P Merger Arbitrage Index returned +3.26%, the S&P 500 returned +20.79%, and the Bloomberg Aggregate Bond Index returned +1.64%.

Fund Performance:

Monthly Return: +0.41%

Top Contributor¹: Abcam plc (ABCM) / Danaher Corp (DHR): In August 2023, Abcam – a leading diagnosis, research, and therapeutics provider to the biotechnology sector – agreed to be acquired by Danaher for \$5.7 billion. The deal has received all regulatory approvals and is expected to close on December 6, 2023. The position added approximately 0.10% to the Fund's monthly performance.

Top Detractor¹: Capri Holdings Ltd (CPRI) / Tapestry Inc (TPR): In August 2023, Capri – a manufacturer of luxury women's and men's accessories, footwear, apparel, and jewelry – agreed to be acquired by Tapestry for \$10.0 billion, including debt. The company received a second request from the Federal Trade Commission in November. The position detracted approximately -0.08% from the Fund's monthly performance.

Market Comments: In November, both the S&P 500 and the High Yield Bond ETF (HYG) exhibited a robust recovery, surging by +9.13% and +4.88%, respectively, following the sharp downturn in October. This resurgence was primarily attributed to the favorable response to the decline in the US Government 10-year bond yield, which retreated from 4.93% on October 31st to 4.33% by month-end. Notably, November marked the most significant easing in US financial conditions within a single month over the past four decades.

We recognized that a potential shift in investor sentiment could happen in late October, posing a risk to maintaining a bearish stance into year-end, as fund managers might be inclined to chase performance. This risk was compounded by the underperformance of numerous equity and hedge funds compared to major market indices throughout the year, largely due to the dominance of the Magnificent 7 (Apple, Microsoft, Amazon, Google, Nvidia and Meta). This created a scenario ripe for a traditional Santa Claus rally.

The ongoing debate over a "hard" or "soft" landing for the economy has shifted towards a higher probability of a "no-landing," with notable proponents of the former including Goldman Sachs. Drawing parallels to the atmosphere in early 1995 when Fed Funds peaked at 6.0% and economists predicted a recession, the current market sentiment reflects a similar skepticism. However, history shows that the anticipated recession did not materialize, and the S&P 500 experienced a remarkable 37% surge in 1995.

On the M&A front, it was generally a constructive month for performance with the highlight being Broadcom's acquisition of VMware finally receiving Chinese regulatory approval at the 11th hour and closing on November 22nd. There was broad-based strength across the market with approximately 75% of merger spreads tightening during the month. This was partly due to a handful of positive regulatory developments, such as Abcam, Splunk, and Olink skirting second requests. Over the past three years, the fourth quarter has seen a concentration of M&A activity in December, a trend that may continue this year. There are several high-profile potential deals in the pipeline, including US Steel and Humana, indicating the possibility of a robust conclusion to the year in terms of M&A.

The Federal Trade Commission ("FTC") continued its regulatory scrutiny in November by issuing a second request concerning the acquisition of Capri Holdings by Tapestry. The core objective of this inquiry is to delineate the contours of the luxury handbag market and assess the extent of market share control anticipated by the combined company through their Coach and Michael Kors brands. A pivotal concern is whether this dominance could lead to coordinated pricing strategies that might disadvantage consumers or competitors, especially within the outlet mall channel.

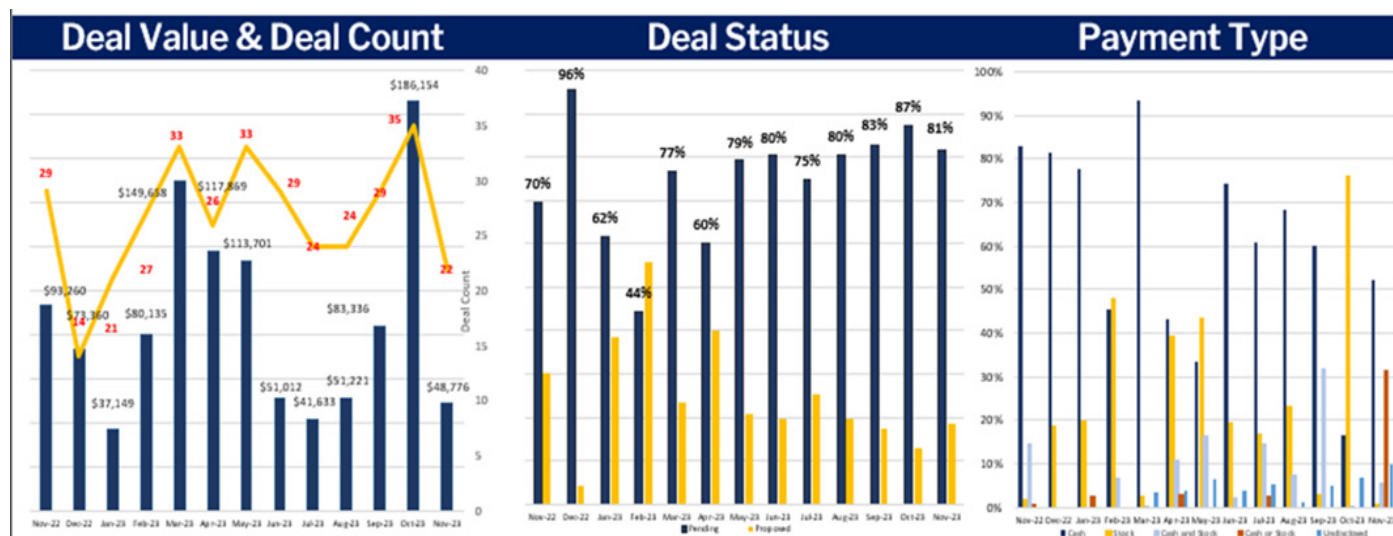
A cursory analysis of the luxury handbag market reveals characteristics such as low barriers to entry, a multitude of competitors, viable substitutes, and a broad and diverse customer base. Despite the potential dominance that Capri and Tapestry could exert in the North American premium handbag space, consultations with regulatory counsel, competitors, and merchandisers have not yielded any expressed concerns about the merger. While acknowledging the market presence of these two entities, analysts contend that there is scant evidence to suggest the merged company would wield significant pricing power. Interestingly, even Macy's General Counsel does not raise objections on this front. Moreover, market studies indicate that online distribution platforms have played a pivotal role in diminishing barriers to entry in the market. This is attributed to the reduction in both inventory and go-to-market costs facilitated by online listings, contributing to a more accessible landscape for new entrants.

The Capri deal's Definitive Merger Agreement incorporates a provision for an ample timeframe to collaborate with the FTC to address and resolve any potential anticompetitive concerns. Notably, the agreement sets an outside walk date of February 2025. In a financial move that further underscores the confidence in the merger's success, Tapestry closed on \$4.5 billion of senior unsecured notes and 1.5 billion of euro-denominated notes on November 27th. Together with Tapestry's existing \$1.4 billion of delayed draw term loan, excess cash, and anticipated future cash flow, the company fully funded the \$7.5 billion required to close

the acquisition. This substantial financial commitment sends a clear and robust signal to the FTC, affirming Tapestry's steadfast belief in the viability and strategic importance of the deal.

Merger Arbitrage Environment: M&A deal flow dollar volume that met our investment criteria in November and YTD 2023 was ~\$48.8 billion and \$960.6 billion, respectively. There were 22 deals in November and 303 YTD 2023.

We continue to favor deals with attractive spreads with manageable regulatory hurdles and shorter expected closing dates. We are mindful of downside volatility and will not hesitate to reduce exposure to mitigate risk. We sincerely appreciate your continued interest and confidence in us. As always, we welcome your input and are available should you have questions.



Source: Bloomberg

Investment Criteria Note: Regions: North America, Western Europe, Australia, Japan, New Zealand, Israel. Deal Size: >\$250m. Deal Status: Pending & Proposed.

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	2.78	4.46	4.69	5.60	6.10

RETURNS (AS OF 11/30/2023)					
SHARE CLASS/ INDEX	YTD	1-YR	3-YR	5-YR	Since Incept.*
Class A	3.23	3.26	4.06	5.21	5.80
Class A (w/load)	-2.44	-2.40	2.12	4.03	5.13
Class C	2.63	2.61	3.38	4.52	5.18
Class C (w/load)	1.63	1.63	3.38	4.52	5.18
Class Z ²	3.62	3.69	4.45	5.58	6.08

*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: 2.39%, Class C: 3.04%, Class Z: 2.04%; Net: Class A: 2.25%, Class C: 2.90%, Class Z: 1.90%

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, 2024 and may not be terminated prior to this date without the action or consent of the Fund's Board of Trustees.

¹As of November 30, Abcam plc (ABCM) / Danaher Corp (DHR) , and Capri Holdings Ltd (CPRI) / Tapestry Inc (TPR) was 8.24% and 6.26% of the Fund, respectively.

²Only eligible investors may purchase Class Z Shares. Please refer to the prospectus for information and conditions.

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. **NexPoint Merger Arbitrage Fund** seeks to achieve positive absolute returns. Invest in publicly announced mergers to capture the spread between the current price of a target company and the announced offer price for that company. **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. **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.

This information was prepared by the Advisor based on its experience in the industry and on assumptions of fact and opinion as to future events which the Advisor believed to be reasonable when made. There can be no assurance that the Advisor 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 Advisor of the Fund. This information was prepared by the Advisor based on its experience in the industry and on assumptions of fact and opinion as to future events which the Advisor believed to be reasonable when made. There can be no assurance that the Advisor 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.

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

The advisor to the Fund is NexPoint Asset Management, L.P. ("Advisor"). Securities offered by NexPoint Securities, Inc., Member FINRA/SIPC, an affiliate of the Advisor.