Q4 2023 COMMENTARY

NEXPOINT

NexPoint Merger Arbitrage Fund

PERFORMANCE REVIEW

The NexPoint Merger Arbitrage Fund (the "Fund") (Class Z shares) returned 1.28% in the fourth quarter of 2023. Comparatively, the S&P Merger Arbitrage Index returned 3.64%, the S&P 500 increased 11.68%, and the Bloomberg Aggregate Bond Index increased 6.82% over the same period. For 2023, the Fund returned 4.10%. Comparatively, the S&P Merger Arbitrage Index returned 6.28%, the S&P 500 returned 26.26%, and the Bloomberg Aggregate Bond Index returned 5.53% over the same period.

TOP CONTRIBUTOR

Seagen Inc. (SGEN)[1]/ Pfizer Inc (PFE): In March 2023, Seagen – a biotechnology company focused on monoclonal antibody-based drugs to treat cancer and related diseases – agreed to be acquired by Pfizer for $42.8 billion. The deal closed on December 15, 2023. The position added approximately 0.21% to the Fund's quarterly performance.

TOP DETRACTOR

Olink Holding AB (OLK)[1]/ Thermo Fisher Scientific Inc (TMO): In October 2023, Olink – a proteomics technology platform company that enables protein analysis capabilities for the biopharmaceutical industry – agreed to be acquired by Thermo for $3.2 billion. In December, the UK Competition and Markets Authority notified Thermo that it intends to open a phase I review of the merger. The parties intend to make a formal merger filing with the regulator in January 2024. The position detracted approximately -0.14% from the Fund's quarterly performance.

MANAGER'S DISCUSSION

The equity and fixed-income markets demonstrated robust performance in the fourth quarter, effectively reversing the October sell-off. Investors shifted their narrative from expectations of the Federal Reserve pursuing a higher-for-longer approach to anticipating rate cuts as early as March 2024. Notably, the S&P 500 and iShares High Yield ETF (HYG) recorded impressive gains of 11.68% and 7.10%, respectively, during the fourth quarter. This rally was bolstered by a significant decline in the ten-year government bond yield, dropping from a peak of 4.98% in October to 3.79% by late December.

The market sentiment swiftly transitioned from risk-off to risk-on, triggered by Federal Reserve Chairman Powell's unexpected comments during the November 1st press conference. Powell conveyed that the Fed had essentially concluded its rate hikes, catching the markets off guard. This surprise shift in the Fed's policy direction was evident in the immediate adjustments made to the forward interest rate curve, reflecting several Fed rate cuts in 2024.

As of now, the market anticipates a Fed rate cut at the March 20th meeting, influenced by a decline in the Consumer Price Index and a softer labor market. Investors are projecting a total of six cuts by year-end. However, there is a note of caution regarding interest rate cuts. Despite the market's expectations, our outlook is more conservative, recognizing the challenges of reducing inflation from three percent to two percent compared to six percent to three percent is much more challenging and could take longer than the market expects. Our expectation is for the equity markets to remain range-bound over the next four to five months as investors observe whether the Fed indeed cuts rates in March or perhaps in June, which is our base case assumption, and if corporate earnings can grow in a slowing global economy.

M&A UPDATE:

North American and European M&A activity concluded the year on a strong note, with the combined volume reaching approximately $2.9 trillion in 2023[2]. Although this represented a decrease of about 10% compared to the previous year, the fourth quarter witnessed robust North American M&A activity, surging to around $600 billion. This notable increase of approximately 36% compared to the third quarter of 2023 was a pivotal factor in elevating the second-half volume to over $1 trillion, marking the fifth-best half-year total ever. The energy sector contributed to this surge with several mega-mergers, including Exxon Mobil's pending $68 billion acquisition of Pioneer Natural Resources.

Analyzing historical M&A cycles, a common pattern emerges with two years of declines followed by multiple years of robust recovery. Considering the surge in second-half dealmaking and the current M&A volumes being underweight relative to historical equity markets, the outlook suggests that the M&A market may be poised for a stronger year in 2024.

However, financial sponsors' activity lagged in the second half of 2023, reaching its lowest levels since 2013 and accounting for only 29% of total M&A volume in North America. Despite a sharp decline in exits and acquisitions during both halves of 2023, we believe take-private M&A activity in the $1 billion to $10 billion range in 2024 could increase given the thawing of financing markets and record levels of sponsor dry powder.

The positive economic outlook in the U.S. for 2024, with a shift from recession concerns to a soft landing or no landing, coupled with a likely peak in interest rates, should provide CEOs and boards with increased confidence to execute on transactions. The opening up of high-yield leverage loan and bond markets enables private equity firms to access more favorable financing. With the S&P 500 and private equity holding substantial cash reserves of more than $3.8 trillion[3], coupled with a heightened understanding of deals likely to face scrutiny from regulatory bodies, major investment banks anticipate a more robust M&A market in the coming quarters.

REGULATORY UPDATE:

Following an extensive period of preview and consultation involving thousands of public comments, the Antitrust Division of the Department of Justice (DOJ) and the Federal Trade Commission (FTC) unveiled the final version of their 2023 Merger Guidelines in December. These guidelines, inspired by established precedents while also framing contemporary economic market dynamics, provide a framework for evaluating the potential impact of mergers and acquisitions on competition. The document outlines the analytical frameworks used by the DOJ and FTC to assess whether such transactions could significantly reduce competition or tend toward creating a monopoly, thereby violating federal antitrust laws. Aligned with the Biden administration's commitment to addressing perceived corporate consolidation, the guidelines reinforce and aim to strengthen merger enforcement, replacing both the 2010 Horizontal Merger Guidelines and the 2020 Vertical Merger Guidelines.

Although not legally binding on courts, the guidelines serve as a transparent set of principles guiding the federal antitrust agencies' decision-making processes. The final guidelines reflect responsiveness to criticisms received during the draft version phase, demonstrating an effort to align more closely with how courts currently analyze merger challenges. This nuanced approach strikes a balance between reinforcing antitrust enforcement policy and addressing concerns raised during public consultation. Overall, we find the guidelines extremely helpful for evaluating regulatory risk and have incorporated the eleven guidelines into our due diligence process.

While these guidelines expand on the factors considered in evaluating M&A activity, their impact on future court cases is not expected to be significant. Despite guiding agencies in their decisions, the guidelines lack the force of law and may face skepticism in the courts. Merging parties may encounter increased challenges, but prevailing in court is generally expected, given legal contests. Importantly, these guidelines formalize concepts that the FTC and DOJ have informally applied for over two years, showcasing the agencies' assertive stance in scrutinizing deals, and their motivation to legitimize theories through formal guidelines.

In a legal proceeding context, it is anticipated that these guidelines may not significantly alter the standard by which judges examine antitrust cases. These agencies have consistently taken an assertive stance in scrutinizing deals, often employing innovative theories to challenge mergers. Legal setbacks may have motivated the FTC and DOJ to legitimize their theories through these guidelines. The potential chilling effect is likely to manifest pre-litigation, affecting smaller transactions and companies with limited resources for legal battles. For major deals involving well-resourced companies, the impact is expected to be relatively minimal. This in effect creates a Darwinian outcome to announced M&A, as deals with a high confidence of closure make it to market.

In December, the FTC continued its regulatory scrutiny with the issuance of two separate second requests, one pertaining to the acquisition of Pioneer Natural Resources by Exxon Mobil and the other concerning Hess by Chevron. Notably, Senate Majority Leader Chuck Schumer, along with 22 other Democratic senators, urged federal regulators to investigate these multibillion-dollar acquisitions by oil giants. Their concern centered around the potential for these deals to lead to higher gas prices, ultimately negatively impacting consumers. The senators argued that the acquisitions could harm competition, potentially resulting in increased consumer gas prices, reduced oil output, and negative effects on small operators and wages.

However, it's essential to provide context and challenge these concerns. In 1982, there were 27 operating East Coast refineries with a capacity of 1.8 million barrels per day. Fast forward to 2022, and this number has decreased to 7 facilities with a capacity of 800,000 barrels per day. The question raised here is a pertinent one: How did reducing refinery capacity contribute to rising gas prices for consumers on the East Coast, and what has Senator Schumer done to address that issue?

The argument against the senators' concerns focuses on the fact that Exxon and Pioneer together would control less than 5% of U.S. oil production and less than 1% globally. Additionally, Pioneer lacks downstream assets such as pipelines, refineries, or gas stations, indicating a limited ability to impact gasoline prices. Similarly, Chevron's acquisition of Hess is seen as posing minimal risk to consumers, particularly given Hess's primary oilfield is off the coast of Guyana in South America. The combined companies have limited overlap in U.S. acreage, further reducing potential risks.

Critics find it challenging to envision how these acquisitions, with less than 1% of global oil production combined, could feasibly influence oil prices, let alone harm consumers. There is an assertion that the Biden administration and Democrats may be leveraging the FTC to pursue a political agenda rather than genuinely protecting consumers, oilfield workers, or midstream vendors. The argument contends that these regulatory actions may be more about political maneuvering during an election year than addressing concrete concerns related to competition and consumer well-being.

In the fourth quarter, there were notable positive developments on the regulatory front. In a groundbreaking move, Pfizer took a proactive step to address concerns raised by antitrust regulators regarding its acquisition of Seagen, a biotech company specializing in cancer treatments. The $43 billion acquisition, which closed on December 14, 2023, triggered concerns about potential implications for innovation and competition in the cancer research and treatment market.

In response, Pfizer announced a strategic decision to donate the royalty rights from the sales of its cancer drug Bavencio to the American Association for Cancer Research (AACR). This move is seen as a unique and unconventional commitment by Pfizer to allay the concerns of the FTC and ensure that the acquisition does not compromise market competition or disadvantage other entities in the field of cancer research and treatment. The AACR, a nonprofit organization dedicated to preventing and curing cancer through research, education, collaboration, and policy, is expected to utilize this donation to further its mission. While the decision to donate Bavencio's royalty may be considered an unusual remedy for regulatory approval, it demonstrates Pfizer's commitment to addressing concerns and ensuring a competitive and balanced landscape in the cancer treatment sector.

However, it's worth noting that the response to this remedy has garnered some criticism. The characterization of the FTC forcing a corporation to donate money to a non-profit organization in exchange for regulatory approval is deemed odd and unconventional. Some argue that such actions are more reminiscent of bribes seen in third-world countries and not in line with expectations in a Western democracy. Despite the unconventional nature of the remedy, Pfizer's decision to make this donation is seen as a strategic move to secure regulatory approval and move forward with the acquisition.

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 fixed-income and equity markets. 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 12/31/2023)

SHARE CLASS/ INDEX	YTD	1-YR	3-YR	5-YR	Since Incept.*
Class A	3.74	3.74	3.68	5.25	5.80
Class A (w/load)	-1.97	-1.97	1.75	4.07	5.14
Class C	3.09	3.09	2.99	4.56	5.18
Class C (w/load)	2.10	2.10	2.99	4.56	5.18
Class Z	4.10	4.10	4.03	5.62	6.08

*Inception Date: 1/19/2015

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.

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. **iShares High Yield ETF Index (HYG).** The iShares High Yield Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds. **Consumer Price Index.** The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a representative basket of consumer goods and services. The CPI measures inflation as experienced by consumers in their day-to-day living expenses.
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. ("Advisor"). The Advisor and NexPoint Securities, Inc. are affiliated.

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 12/31/2023, SGEN was 0% of the Fund. As of 12/31/2023 Olink was 4.69% of the Fund.

[2]Source: Citi

[3]S&P Global