Q1 2024 COMMENTARY

NEXPOINT

NexPoint Merger Arbitrage Fund

PERFORMANCE REVIEW

The NexPoint Merger Arbitrage Fund (the "Fund") (Class Z shares) returned 1.95% in the first quarter of 2024. Comparatively, the S&P Merger Arbitrage Index returned 0.83%, the S&P 500 increased 10.55%, and the Bloomberg Barclays Aggregate Bond Index declined by -0.78% over the same period.

TOP CONTRIBUTOR

Splunk Inc. (SPLK) / Cisco Systems Inc.: In September 2023, Splunk – a software developer that collects and analyzes machine data generated by websites, applications, servers, and mobile devices – agreed to be acquired by Cisco for $28.0 billion. The deal closed in March, and the position added approximately 0.17% to the Fund's quarterly performance.

TOP DETRACTOR

Olink Holding AB (OLK) / 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 first quarter was a strong period for most equities, with many indices forging new all-time highs. The S&P 500 was up 10.55% and is now[2] up approximately 28.48% since its October lows. According to Strategas, a macroeconomic research firm, a significant driver behind the subsequent 28% surge was the Treasury Department's decision to revise its quarterly refunding schedule, favoring short-term bills and constraining the supply of longer-term notes. This move effectively interrupted the prevailing bear market in bond prices, causing 10-year yields to drop from around 5% to below 4% by year-end. This singular event sparked a broader rally in risk assets, gaining momentum when Federal Reserve Chairman Jay Powell hinted at a shift towards a more accommodative monetary policy for 2024.

Although the equity markets did see some modest broadening out of leadership, the main themes that outperformed last year – large over small, growth over value, quality over risk – continued to be top performers in 2024. Within large caps, Technology and Communication Services, the biggest winners in 2023, outperformed again in the first quarter, and energy was also a sector leader, a reversal from 2023. Defensive sectors, such as Utilities and Staples, continued their string of underperformance in the first quarter.

At the beginning of the year, futures markets suggested as many as six 25-basis point rate cuts by the Fed in 2024. Our initial projection was for three cuts commencing in July. However, higher-than-anticipated inflation figures in the first quarter have tempered investor expectations to just three rate cuts for the balance of the year. Frankly, this expectation may prove to be overall optimistic. We struggle to reconcile the scenario where nominal wages are growing at 6% while core inflation trends retreat to 2%. Robust wage growth empowers consumers to absorb higher prices in one sector, such as insurance, without reducing spending in others, like apparel. As long as wages and employment growth remain robust, we anticipate the Fed will face challenges in achieving its inflation target within a timeframe that satisfies the government bond market investors.

Our anticipation is for the equity markets to remain within a range during the second quarter, while the US 10-year bond yield is expected to fluctuate between 4.00% and 4.75%. This projection stems from the disruption of the disinflation trend and uncertainties surrounding the trajectory toward a 2% core Consumer Price Index. Furthermore, recent movements in oil and copper prices present a less optimistic outlook for disinflation, as does lower unemployment. If concerns were to emerge within the government bond market regarding a potential delay in the Fed's first rate cut until 2025, it could trigger a scenario where yields widen, subsequently exerting downward pressure on equity prices in the second quarter.

M&A UPDATE:

North American and European M&A momentum from 2023 continued into the first quarter of 2024. Announced North America M&A volume was over $560 billion, a 55% year-over-year increase, and more in line with the 7-year average with notable rebounds in Technology, Energy, and Financial Institutions. Strategic acquisitions represent over 75% of volume, as acquirors across sectors capitalize on stable market conditions to accelerate growth, enhance scale, and expand capabilities. The market backdrop continues to be conducive to sustained momentum for strategic buyers, with stock indices near all-time highs, declining rate forecasts, and excess cash on corporate balance sheets. There were 15 transactions in excess of $10 billion announced during the first quarter – the most to start a year ever and nearly 4x more than first-quarter 2023. There is increased clarity on the regulatory path for M&A deals, but the regulatory backdrop is impacting deal terms, including longer outside dates and larger break fees, which provide more certainty to the target companies.

[1]As of 03/31/2024, SPLK was 5.7% of the Fund. As of 03/31/2024 OLK was 0% of the Fund. [2]As of March 31, 2024

Analyzing historical M&A cycles, a common pattern emerges with two years of declines followed by multiple years of robust recovery. This historical pattern appears to be unfolding in 2024. The positive economic outlook in the U.S. for 2024, with a shift from a soft landing to strong economic growth, coupled with a likely peak in interest rates, provides CEOs and boards with increased confidence to execute on strategic transactions. The opening up of high-yield leverage loan and bond markets enables private equity firms to access more favorable financing. Major investment banks anticipate a more robust M&A market in the coming quarters because the S&P 500 and private equity firms have substantial cash reserves, estimated in excess of $3.8 trillion and regulatory lawyers have a better understanding of deals likely to face scrutiny from regulatory bodies.

REGULATORY UPDATE:

In the past two years, the Federal Trade Commission ("FTC") and Department of Justice ("DOJ") have sought to block several high-profile public mergers, albeit with limited success outside of deals deemed blatantly anti-competitive. One such deal was blocked in January. Judge Young rightfully blocked JetBlue Airway's attempted merger with Spirit Airlines, citing multiple compelling reasons for his decision including an 11% decrease in airline seats, primarily due to JetBlue's aircraft configuration featuring fewer seats per plane than Spirit's, inevitably leading to decreased competition and potentially higher prices for consumers.

Another deal was mutually terminated by the merger parties in January. Amazon's ambitious attempt to acquire iRobot, a leading robotic vacuum cleaner company, terminated after eighteen months of wrangling with the FTC and the European Commission. The primary antitrust concern likely revolved around a vertical theory of harm rather than horizontal issues. Specifically, regulators scrutinized the potential anti-competitive effects stemming from Amazon's dominant online retail presence and extensive distribution networks, combined with iRobot's leading position in the market for robotic vacuums. With iRobot under Amazon's ownership, there's a risk that competing brands could face barriers to accessing Amazon's vast customer base. In such a scenario, Amazon's acquisition of iRobot could result in reduced competition and consumer choice, as competing brands struggle to compete on a level playing field.

The regulators celebrated their role in preserving competition in those deals and shielding consumers from inevitable price hikes. However, the irony lies in the financial struggles of Spirit Airlines and iRobot, both potentially heading towards bankruptcy. Specifically, Spirit's unsecured bonds are trading at 70% of par and yielding 40%, signaling severe financial distress. And iRobot's stock has plummeted from $50 to under $9 and management laid off 31% of the employees upon terminating its deal with Amazon. As iRobot and Spirit grapple with cash burn and debt maturities, the question arises: did consumers truly benefit, or did the regulators hand victory to their competitors?

During the first quarter, the FTC and DOJ remained active, issuing five-second requests and ten "pull and refile" actions, three of which ultimately received second requests as of March 29th. A "pull and refile" refers to a situation where a company voluntarily withdraws its merger notification from consideration by the FTC or the DOJ before those agencies have completed their review process. The company then subsequently refiles the notification with the regulatory agency for review. This strategy is often employed when the company anticipates that the regulatory agency may raise objections or concerns about the merger's compliance with antitrust laws or competition regulations. By voluntarily withdrawing the notification, the company seeks to address potential issues identified by the regulatory agency and improve the likelihood of approval for the merger upon resubmission. A pull and refile restarts the regulator's review period by an additional 30 days. This gives, in effect, the regulators more time to review the transaction to avoid a second request. Our ability to accurately identify which deals would face scrutiny and which would progress smoothly can create value and lower volatility for the Fund.

In February, an interim staff report from the Committee on the Judiciary, authored only by Republicans, provided a stark portrayal of the FTC grappling with internal strife and disarray attributed to the leadership style of Chair Lina Khan and her team. Drawing from internal documentation and interviews with FTC personnel, the report outlines a narrative of neglect and mismanagement under Chair Khan's tenure, suggesting a prioritization of personal ideological pursuits over the agency's core mission— to protect consumers and promote competition in the marketplace. Testimonies from longstanding FTC staff depict Chair Khan as centralizing power within her office, excessively meddling in investigations, and sidelining consumer protection initiatives in favor of a radical agenda. The departure of senior staff, resulting from a toxic atmosphere and low morale, may help explain the recent increase in pull and refiles, as the FTC struggles to get pace with the surge in merger activity over the past six months. The report concludes that as Congress considers legislative reforms to federal antitrust law and the FTC, the Committee on the Judiciary will continue its duty of conducting robust, fact-based oversight of the FTC.

On a positive note, Bristol-Myers Squibb's acquisition of Karuna Therapeutics did not receive a second request, and the merger closed in 88 days on March 19th. Karuna is a clinical-stage biopharmaceutical company driven to create and deliver transformative medicines for the treatment of acute psychosis in adults with schizophrenia, as well as for the treatment of psychosis in Alzheimer's disease. The deal was trading at a very attractive return because investor expectations were for the deal to receive a second request, given most large biotech deals are heavily scrutinized by the FTC. However, after thorough due diligence and discussions with consultants and equity analysts, it became evident that there were no significant overlaps between the schizophrenia or Alzheimer's drug portfolios of Karuna and Bristol-Myers. Consequently, we increased the Fund's position in anticipation of regulatory approval and a quick close.

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 want to express our sincere appreciation to our shareholders for their ongoing support.

RETURNS (AS OF 3/31/2024)

SHARE CLASS/ INDEX	YTD	1-YR	3-YR	5-YR	Since Incept.*
Class A	1.85	6.37	3.72	5.35	5.85
Class A (w/load)	-3.76	0.52	1.79	4.16	5.20
Class C	1.68	5.65	3.04	4.65	5.23
Class C (w/load)	0.68	4.65	3.04	4.65	5.23
Class Z	1.95	6.73	4.08	5.71	6.13

*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.