Q2 2024 COMMENTARY

NEXPOINT

NexPoint Merger Arbitrage Fund

PERFORMANCE REVIEW

The NexPoint Merger Arbitrage Fund (the "Fund") (Class Z shares) returned 1.28% in the Second quarter of 2024. Comparatively, the S&P Merger Arbitrage Index returned 0.83%, the S&P 500 increased 4.28%, and the Bloomberg Barclays Aggregate Bond Index declined by 0.07% over the same period. YTD through June 30, 2024 the Fund returned 3.25%. Comparatively the S&P Merger Arbitrage Index returned 1.33% and the S&P 500 returned 15.29%, and the Bloomberg Aggergate Bond Index returned -0.71%.

TOP CONTRIBUTOR

Endeavor Group (EDR) / Silver Lake Management LLC (Private Equity): In April 2024, Endeavor – a global sports and entertainment company – agreed to be acquired by Silver Lake, its largest shareholder, for ~$10.0 billion.

TOP DETRACTOR

Hess Corporation (HES) / Chevron Corporation (CVX): In October 2023, Hess – a global independent oil producer – agreed to be acquired by Chevron for ~$59.4 billion.

MANAGER'S DISCUSSION

The second quarter demonstrated robust performance across equities, marked by numerous indices reaching new all-time highs. Since January, the S&P 500 has risen 15.29%, marking its second-strongest start to a year this century, supported by a resilient economy, improved corporate earnings, and strong demand for AI-linked companies. Despite signs of economic moderation, the rally is expected to continue amid Federal Reserve considerations to adjust rates down following one of the most impactful tightening campaigns in decades. A strong first-half performance historically suggests positive equity momentum for the remainder of the year, especially in a Presidential election year.

While inflation showed signs of cooling, so did the economy, underscoring the Fed's delicate task of controlling prices without triggering a downturn. Sustained equity growth hinges on the expectation that AI will rapidly evolve into a more substantial driver of broad economic expansion. While we foresee technology maintaining its pivotal role in long-term economic growth, we remain cautious about AI's sudden and widespread impact on growing corporate profits. Consequently, we anticipate a potential economic slowdown and a corresponding pullback in equities in the second half of 2024.

M&A UPDATE:

The momentum in North American and European M&A activity observed in the second half of 2023 continued into the first half of 2024. North American M&A volume exceeded a trillion dollars, according to reports from Citi and Dealogic, marking a 27% increase from the first half of 2023 and comparable to the second half of that year. At the current pace, North American M&A volume is poised to surpass $2 trillion, surpassing levels seen in 2023, 2022, and even 2020, though 2021 remains an outlier with over $3.5 trillion in deals. The surge in volume was driven by transactions exceeding $10 billion, which increased nearly 70% year-over-year and accounted for about two-thirds of the total volume in 2024. The technology, energy, and utilities sectors remained particularly active. Concurrently, private equity activity surged in the second quarter of 2024, marking the highest volume since the second quarter of 2022. In Europe, the M&A market also showed robust growth, with deal volume up 26% compared to 2023.

M&A bankers anticipate sustained momentum throughout the year. As previously noted, M&A activity declined in 2022 and 2023. Historically, such downturns are followed by increased deal activity driven by pent-up demand. Today, the economic outlook is considerably brighter compared to a year ago, when concerns centered on recession timing rather than the likelihood of a soft economic landing. CEOs and boards are increasingly confident in predicting lower interest rates, which has bolstered their willingness to pursue transactions. The high-yield leverage loan and bond markets remain accessible, facilitating more private equity transactions. With the S&P 500 near record highs, companies are leveraging stock to acquire other companies. Additionally, heightened levels of activist shareholder involvement are prompting strategic reviews and potential company sales. These factors collectively create a highly favorable environment for robust M&A activity in the upcoming quarters.

REGULATORY UPDATE:

On the regulatory front, the Federal Trade Commission approved ExxonMobil's acquisition of Pioneer Natural Resources on May 2nd, and the deal closed on May 3rd, with one extremely odd condition. The condition, barring Pioneer's chief executive, Scott Sheffield, from serving on ExxonMobil's board, marked an unprecedented move by a federal regulatory agency, particularly without pursuing criminal charges against the individual. This action underscores FTC Chair Lina Khan's assertive approach to advancing her policy agenda. The agency cited allegations against Sheffield related to potential collusive activities impacting oil prices and concerns about anticompetitive behavior if he were to join the board. Sheffield has denied these allegations and requested the FTC to rescind the ban. His legal representatives argue that the FTC's restriction on his board appointment rights is arbitrary, capricious, exceeds lawful authority, and is not in the public interest. Sheffield's attorneys conclude, "The FTC plays a long-standing, well-established, and vital role in protecting American consumers and businesses from anticompetitive corporate behavior. But in straining to find a reason to criticize the merger of Exxon and Pioneer, the FTC stepped well beyond its proper mandate and unjustly smeared Mr. Sheffield."

As of 06/30/2024, EDR was 4.27% of the Fund. As of 06/30/2024 HES was 3.20% of the Fund.

On a less controversial note, the market was pleasantly surprised that Prysmian's announced acquisition of Encore Wire, a copper and aluminum industrial-grade wire and cables manufacturer, did not receive a second request from regulators. This development paved the way for the deal to close in July. As expected, Sterling Check's acquisition of First Advantage faced regulatory challenges. After refiling with the Department of Justice (DOJ) in April, they received a second request regarding their planned merger. Both companies, known for providing background screening and identity services, have a reputation as "serial" acquirers and are direct competitors.

In May, the FTC and the DOJ issued a Request for Information (RFI) from the public to identify serial acquisitions and roll-up strategies that have led to harmful market consolidation. The FTC and DOJ argue that serial acquisitions are problematic because companies can grow larger and potentially dominant through a series of smaller acquisitions. These smaller transactions often fall below the Hart-Scott-Rodino (HSR) thresholds, escaping pre-closing agency review and oversight. The FTC warns that through these smaller deals, firms can gain significant control over key products, services, and labor.

The focus on serial acquisitions is not new, but recent updates to the Merger Guidelines and HSR filing process underscore the administration's concern with these transactions. The revised guidelines now formally include the review of past transactions as part of the current deal evaluation. This approach may seem unusual, as it appears to allow agencies to assess the impact of past acquisitions retroactively. Traditionally, HSR reviews incorporate all holdings of the involved parties, including previous acquisitions. Therefore, it can be argued that the additional scrutiny of "serial" acquisitions might be redundant, as past deals are already considered in the overall review. This new approach may be seen as a way for regulators to address issues that might have been overlooked in the past. As with all the FTC's new theories of harm, we incorporate these factors into our due diligence review process and integrate the associated risks into our deal-scoring methodology to ensure a comprehensive evaluation of potential transaction risk.

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 06/30/2024)

SHARE CLASS/ INDEX	YTD	1-YR	3-YR	5-YR	Since Incept.*
Class A	3.03	7.62	3.70	5.36	5.82
Class A (w/load)	-2.65	1.68	1.77	4.17	5.19
Class C	2.67	6.92	3.02	4.66	5.19
Class C (w/load)	1.67	5.92	3.02	4.66	5.19
Class Z	3.25	8.01	4.08	5.73	6.11

*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.